

NAVAL POSTGRADUATE SCHOOL MONTEREY, CALIFORNIA



THESIS

**APPLYING THE MULTIPLE PUBLIC GOOD
MODEL FOR ESTABLISHING A SECURITY
POLICY FOR HUNGARY**

by

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June 1998

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**APPLYING THE MULTIPLE PUBLIC GOOD MODEL FOR ESTABLISHING A
SECURITY POLICY FOR HUNGARY**

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Submitted in partial fulfillment
of the requirements for the degree of

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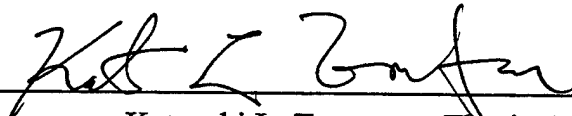
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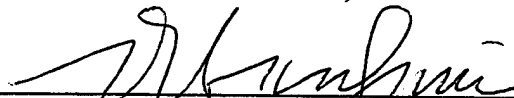


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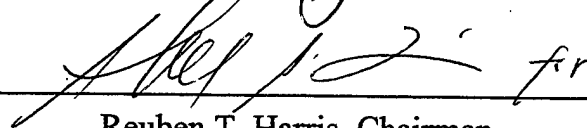
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ABSTRACT

This study was written with an aim to suggest a security policy approach for Hungary after becoming a member of NATO. The formulation of the country's security policy started with examination of security threats in general and analysis of Hungary's close security environment in particular. The analysis revealed that the threat of large scale military aggression has disappeared. However, other types of security challenges--economic crises, ethnic hostilities, environmental pollution, proliferation of weapons of mass destruction--prevailed, and the military concerns of security has decreased in importance.

The issues of globalization, and diversification of threat perception could be addressed by cultivating a portfolio of security provisions. The multiple public good model suggested by Mark A. Boyer, an associate professor of political science at University of Connecticut, for analyzing defense alliances was an appropriate approach to formulation of Hungary's security policy.

Based on the results from the threat assessment and the suggestions of the multiple good model, Hungary's security policy was introduced as a portfolio of defense provisions which in turn was Hungary's contribution to the Alliance. The evidence of contribution to the collective defense was seen through an examination of Hungary's path toward acceptance into NATO and an analysis of domestic stakeholders. The suggested portfolio contained three particularly important fields: economic cooperation as a means of spreading security eastward, handling the questions of ethnic minorities in neighboring countries, and modernization of the Hungarian Defense Force.

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I. INTRODUCTION

The Czech Republic, Hungary, and Poland were invited to join the North Atlantic Treaty Organization (NATO) during the NATO Madrid Summit held in July 1997. These three countries have made considerable improvement in the way of democratization, modernization of their military forces, and the establishment of civil control over the military. These aspects made the NATO invitation possible. In December 1997, the negotiations on accession were successfully finished. The ratification procedures by NATO members are currently under way. With the ratification of accession protocols by the legislation of the United States in May 1998, the planned deadline — April 1999 — for finishing the first round of NATO enlargement has become attainable. Now, it is the prospective members' turn to continue the preparation process that will enable them to contribute to the common goal of the Alliance.

Hungary, too, has to possess a satisfactory mix of external policy tools to provide for security. The formulation of an external policy should start with an analysis of the security environment the country faces. Based on the analysis, the actual sources of the security threats have been identified. In turn, the established external policy should meet all of the prevailing challenges. Being a member of an alliance, a country should also incorporate into its policy the expectations of its allies.

Nevertheless, the assumed policy has to be based on the economic and other capabilities of the country. It is not in the interest of the Alliance to obligate one of its members to assume provisions requiring extremely high resources. What NATO needs,

while it expands, are countries possessing a strong economic basis that allows for the maintenance of modern military forces, an external policy which spreads western values, and strong stabilizing forces in their close environment. Because of Hungary's geographic situation, earlier connections with former socialist countries can fulfill these expectations.

As American Deputy Secretary of Defense John Hamre stated:

The key to preventing war in Europe in the 21st Century is to spread the democracy, stability, and prosperity of Western Europe into East and Central Europe, all the way to Russia. And the key to that is by enlarging NATO — inviting new members into the North Atlantic Treaty Organization.¹

A. BACKGROUND

For establishing a portfolio of security provisions for Hungary, this thesis has used the latest version of economic models on alliances. The center of the model is the theory of public goods because the defense product possesses the features of *nonrivalry* and *nonexcludability* in defining the public character of those provisions.

The theory of public goods has practically evolved since the inception of NATO. The aim has been to reach an optimal operating level of the alliance and to provide an equality in contributions by individual nations. However, the original model, based purely on the theory of public goods with a single defense capability, and its following versions,

¹ Address by John Hamre, Deputy Secretary of Defense at a Peace Luncheon in Birmingham, Alabama, November 1, 1997.

the joint product model assuming the diversity of different weapons, have drawn a conclusion about the “free ride” of some members at the expense of others.

The end of the cold war has put military threat and military provision in the last place in the security policy of a majority of countries. Therefore, it is understandable that the value of military means has been inflated, although the necessity for maintaining an adequate defense capability has not disappeared. Other tools of security provisions, such as maintaining good international relations and building economic interdependences have come to the fore. This shift in security policies provides a solid basis for the proposed model of alliances. The model of multiple public good takes into account several dimensions of security provisions, or to put it differently, the model incorporates both military and non military tools of security policy. Consequently, using the multiple public goods model for suggesting a mix of security tools for Hungary is a satisfactory approach.

B. RESEARCH QUESTIONS

The primary research question for this thesis is the following:

What should be the international/intra-alliance strategy/policy of Hungary that ensures the security and economic prosperity of the country while considering the common purpose of the alliance?

The study also examines the following secondary research questions:

1. How can the threat perception in the post-Cold War era be characterized?

2. What are the main sources of threats and instability in the Central and Eastern European (CEE) region?
3. What are the assumptions of the multiple product model suggested by Mark Boyer, associate professor of political science at the University of Connecticut?
4. Has Hungary committed herself to NATO membership?
5. What would be Hungary's contribution to the Alliance?

C. SCOPE AND ORGANIZATION OF THE STUDY

This thesis attempts to accomplish the examination of three main issues in three chapters. The second chapter deals with questions of security perceptions. In this chapter there is an introduction of the approach to security at the end of 1990s, which follows the end of the Cold War. Second, an analysis of Hungary's close security environment identifies the particular security challenges the country and NATO face in the CEE region.

The third chapter presents the multiple public good model developed by Mark Boyer. Based upon Boyer's work, an evaluation of earlier economic models of defense alliances show that the multiple public good model offers approaches to overcome the highly restrictive assumptions of the former models. The model also provides evidence that the free riding hypothesis — some members get free security provisions at the expense of the others — cannot be proven if the evaluation of contributions goes beyond a strictly military dimension of provisions. Incorporated into the model are the trade of

public goods, the notion of comparative advantages, and the role of negotiations that will take the alliance closer to an optimal utilization of resources.

Chapter IV examines two issues. First is Hungary's commitment to NATO. The commitment is an important dimension for the Alliance, because it reveals the probability of delivering the expected share of security products by single members. Hungary's devotion to NATO lays on two factors: the recognition by the country that the cheapest, and most effective way to provide for her security is the membership in NATO, while the second factor is the dedication of domestic stakeholders to the Alliance. The unanimous Parliamentary voting about NATO membership on July 17, 1997 showed that the major political parties are committed to the Alliance. The referendum held in November 1997 reinforced that the general public also favors the membership into the organization.

The second issue of Chapter IV is a proposed mix of security policies for Hungary as a contribution to the common provision. Three fields are especially important: maintaining good connections with neighbors; pursuing a moderate minority policy,; and improving the country's defense capability.

The fifth chapter sums up the results and conclusions of the work. It also offers two sets of recommendations. These recommendations consider some aspects of implementation of Hungary's security policy, as well as some prospective ideas for further research and the development of the multiple public good model.

II. SECURITY THREATS IN CENTRAL AND EASTERN EUROPE (CEE)

Three issues preceded Hungary's invitation to NATO membership. First, the historical development in Europe changed the character of the security environment. The end of bipolarity made the invitation of a former adversary possible. Second, the prevailing security threats and the demise of the Warsaw Pact made it necessary for Hungary to provide for her own security. The country saw membership in NATO as the most appropriate solution to meet the security challenges she faces. Finally, a decade of development in NATO made it feasible to acquire new members.

This chapter takes a global approach to examine the security perception at the end of 1990s. The analysis concludes that the threat to security is recently perceived in more than just military terms. The subchapter describes four different spheres of security: military, economic, proliferation of weapons of mass destruction, and ecological dimensions.

The next section provides a regional analysis. This investigation focuses on Hungary's close security environment and describes the situation in neighboring countries. Upon analysis, one can conclude that the possibility of a large-scale conflict or a total war against Hungary and NATO has diminished, and has become practically improbable. However, other sources of conflicts still prevail. Crises can originate from nationalism, undemocratic practices, and the main security concerns in the CEE region are economic difficulties and problems of economic transformation. The results of the test are summarized in Table 1 which also offers four different future scenarios of the political

development in the Central and Eastern European (CEE) region. The four scenarios are: the most optimistic — the “era of peaceful cooperation and development,” the realistic and highly probable — the “rolling down of a new iron curtain”; the two dangerous and worrying — “Balkans on fire”, and “in the name of Russian brethren” are outcomes of national hostilities and Russia’s hegemonic aspirations.

A. GLOBAL THREATS TO SECURITY AT THE END OF THE CENTURY

The national security policy of a country emanates from the international environment and security challenges the country and the international community face. Recently, security cannot be described in mere military terms. It should be considered in a broader sense, though the military considerations have not disappeared even with the termination of the Cold War. To sketch an overall picture of recent security challenges in Europe, we can consider the military, economic, ecological threats, and the dangers from the proliferation of weapons of mass destruction. Obviously, the challenges offered here are only an assortment of risks. Other relevant issues are the growing international crime, drug trafficking, international migration, problems with refugees, to name a few.

On the other hand, the broadening of the perception about threats and security goes in parallel with the formation of the three different levels of security challenges. On the first level, threats are analyzed in connection with a single state. Political and military menaces could be approached from this low perspective. The second level threats can be defined in a regional or systemic context. The political and military dimensions can also be

interpreted on this level in the sense that security of a single country is not separable from the security of its neighbors. The economic security also belongs to this second level because most of the countries are dependent on other states for some resources, like energy or some minerals. Just a few countries possessing huge natural and economic resources can reach prosperity in circumstances of autarky. The third level of security can be found on a global scale. The example of this is an ecological threat. The greenhouse effect does not respect national borders and cannot be stopped at the boundary of regions. The catastrophe at Chernobyl in 1989 did not also stop at the borders of Ukraine. It affected many European countries as well.

1. Military Threats

The collapse of the socialist system and the disintegration of the Soviet Union have radically changed the European security environment. With the end of the forty-four year hostility and the emergence of new democratic regimes in Central and Eastern Europe, the possibility of war has diminished. As Stephan Van Evera points out, the probability of a large-scale military attack practically disappeared:

[T]he domestic structures of most European states have changed in ways that make war far less likely than before 1945. The most significant domestic changes include the waning of militarism and hypernationalism. Others include the spread of democracy, the leveling of formerly stratified European societies, the resulting evaporation of "social imperial" motives

for war, and the disappearance of states governed by revolutionary elites. These changes have removed important causes of Europe's past wars, especially the two world wars.²

However, possibilities for crises and "little local wars"³ still prevail. For example, the historical heritage of the region around Hungary carries the risk of further hostilities in itself.

All over Eastern Europe, people have stayed still while borders have changed. The peace settlement after the first world war, for example, stripped Hungary of two-thirds of its territory and half of its population. At its extreme, this mismatch of borders and people has produced war in the former Yugoslavia. But disputes simmer throughout the rest of the region, too. Czechoslovakia has broken in two. Hungary and Slovakia are engaged in a war of words over the largest civil-engineering project in Europe, a dam on the river Danube at Gabchikovo. The border of the Soviet Union is speckled with conflicting claims. The Slavs of eastern Moldova are fighting a war against the Moldovan government lest it vote for reunification with Romania. And so on.⁴

Figure 1 in the Appendix illustrates losses of Hungary in the 1920 Paris peace agreement which closed the First World War. The main problem in this respect does not occur as Hungary's irredentist territorial claims, though some extremists can talk about the necessity of border revisions. The real danger is the occurrence of friction between countries because of the mistreatment of national minorities, or emergence of hostility against ethnic groups to divert the attention from deeper problems.

² Van Evera, S., "The Domestic Sources of Peace and War in the New Europe" in The Future of European Security, ed. by Crawford, Beverly, Center for German and European Studies, University of California at Berkeley, 1992, p. 171.

³ The term was used to title an article in The Economist, March 13, 1993, p. 17.

⁴ "Little Local Wars?," The Economist, March 13, 1993, p. 17.

2. Economic Threats

The main imperative of the two world wars was the strife of the European states for the possibilities of market penetration, and more over for the access to natural resources in different, and often distant parts of the world. The colonization of 18th and 19th centuries was complete while Germany, Italy, the Austrian-Hungarian Empire, and Japan were left out of this process. Also, one main reason causing the collapse of the socialist system in 1989 was the economic situation in those countries. By the 1980s, Hungary had a large international debt and very few chances to pay the huge debt service based on the low effectiveness of the socialist economy. These facts, and others, such as the shock of the two oil crises, also put economic factors at the fore of security thinking.

In a primary understanding, economic pressure from the side of a country or group of countries is perceived as an economic threat. In this sense, an economic threat is an embargo or the limitation of a country's access to the resources of energy or raw materials that are critical to the country's survival. This kind of action can be a form of punishment for a country's bad international behavior. An example of a similar incident is the embargo against Iraq for its noncompliance with UN resolutions. Nevertheless, collective economic sanctions can be avoided by obeying the norms of international relations. An embargo can be launched and be really successful if its use is based on a consensus of the entire community of nations.

On the other hand, other types of economic threats are hard to define as exactly as military threats. Therefore, the next two issues are mentioned not in terms of threats but in the context of economic security. The conventional instrumental approach of economic security emphasizes the connection between economic growth and military capabilities. The focus is on the economic constraint to the military spending. Here, the main question is the allocation of scarce resources between butter and guns. Here, defense spending through military production and a "spin off" of the modernization can play the role of a facilitator. On the other hand, an unbalanced allocation of resources in favor of the military spending can subvert the economic growth of a country.⁵

The instrumental approach to economic security has its own meaning for the new market economies of Eastern Europe. The transformation from the command economy to the free market in Hungary, for example, has been accompanied by a severe decrease in industrial production, hard budgetary restrictions, austerity programs, inflation, and so on. For example, the defense spending of Hungary fell 50% in real terms for the period 1989 to 1994, and remained on that level for the last years. Cuts in the military budget was necessary for a successful change to the market system, and for the economic recovery. Although, the macroeconomic indicators for 1997 are promising, the fragility of the Hungarian economy does not allow a sharp increase in military spending in spite of the need to change the obsolete equipment of the Hungarian Defense Forces. Therefore, a

⁵ A good case in the point is the situation around North and South Korea. While South Korea under a US defense guarantee allocated its budget in a way that promoted the economic growth of the country; the North Korean defense burden hindered the country's economic prosperity.

sharp increase of military spending is not feasible because of its restrictive consequences on the macroeconomic situation.

The next level to define economic security is its systemic treatment. In this context, Sperling and Kirchner underline three distinctive elements of economic security:

We believe that economic security has three identifiable and separable elements. First, economic security reflects concern over the ability of the state to protect the social and economic fabric of a society. Second, economic security involves the ability of the state to act as effective gatekeeper and to maintain societal integrity. Third, economic security concerns the ability of the state in cooperation with others to foster a stable international economic environment in order to reinforce cooperation in the military sector as well as to extract the welfare gains of openness.⁶

In this later perspective, economic security focuses on the protection of the welfare state, willingness to defend economic interests of single nations, and also the necessity to maintain close economic relations, and economic interdependencies on a global scale. Looking at the latest developments in Europe, the systemic approach seems to have a solid base. Moreover, in the contemporary Europe the military and economic dimensions of security are interrelated. Sperling and Kirchner noted:

The security of post-Cold War Europe demands a broader, systemic definition of the relationship between the economic and military dimensions of security; it requires that the economic dimension be treated as an integral part of the overall security system rather than as an adjunct to the military dimension of security at the national level.⁷

⁶ Sperling, J. & Kirchner, E., Recasting the European Order, Manchester University Press, 1997, p. 12.

⁷ Ibid. p. 13.

This definition aims to achieve an international system which is structured to ensure a stable and secure environment supporting the political, the military, and also the economic sectors of international relations. Therefore, the security architecture of Europe should be limited to the two dimensions, but there the consideration of the intersections and consequences of the intersection of military and economic fields is imperative. This direction of security thinking started from the recognition that a pure military approach security failed. A system in which the members of it are bound through a dense net of economic relations can guarantee more security than a system of states operating in separation seeking self-sufficiency. Thus, the security dilemma operates on the economic field. An attempt of a state for "absolute security" through economic isolation can be perceived by others as a hostile aspiration and so reduce the over all security.⁸

3. Proliferation of Weapons of Mass Destruction

It has been just a few years ago that the world became aware of the threat posed by the proliferation of weapons of mass destruction. The traditional methods of prevention failed at least twice for the last seven years. The UN inspections following the Operation Desert Storm revealed that Iraq was far more ahead in its NBC and missile programs than the intelligence of allied forces originally assessed. The second similar case was that of North Korea. Evidence showed that Korea acquired the capability to produce

⁸ A comprehensive analysis of economic threats and security is offered by Robert Cooper in the book Global Security ed. by Eric Grove, Brassey's (UK), 1991.

and possess a nuclear weapon. Both of the countries violated basic arms-control contracts without detection by the international community and had obtained the materials and knowledge to produce NBC⁹ weapons.

The proliferation of NBC weapons can occur on two ways. First, several countries of the Middle East, the Mediterranean, Asia might develop and obtain their own potential to produce NBC agents and means of their delivery. Second, weapons of mass destruction can spread from the countries already possessing these weapons to other regions of the world. This kind of threat can originate especially from member-states of the former Soviet Union. The situation is more frightening if we take into account the increase and perspectives of the organized crime.

Three kinds of NBC weapons compose a particular threat. Nuclear weapons are the most popular in proliferant countries. The development and production of a few rudimentary nuclear bombs or warheads do not constitute an especially difficult task. Biological weapons are the cheapest among the weapons of mass destruction; also, the dual-used technologies involved in its production are well known everywhere. The chemical weapon is perceived in proliferant countries as a highly effective and destructive military device. Over all, NBC weapons are very attractive for several states because of their significant psychological, political, and military advantages.

⁹ Nuclear, biological, and chemical.

Robert Joseph, in his article "*NATO's Role in Counter-Proliferation*," analyzes the threats of NBC proliferation. His observation directs the attention to the dangers implied in the spread of NBC capabilities:

The "strategic personalities" of the regional proliferators are very different, and more dangerous than those of the former Warsaw Pact states. In particular, such states would be less likely to act according to the "rules" of deterrence and would be more prone to take risks in order to advance the leadership's interests. Proliferant states would also be less likely to have effective command and control, raising the risk of accidental or unauthorized use.¹⁰

4. Ecological Threats

Humankind, through radical changes and penetrating the environment, threatens its own survival. The footsteps of our actions are exhaustion of natural resources, pollution of woods, lakes, rivers, and oceans. The exhausting gases from cars and factories cause the greenhouse effect. For a long time, these threats were internal, as there were no sound arguments to intervene into the matters of others states.

Today, the ecological threat has become globalized. The quantity of pollution, and the consequences of single events or accidents pose an enormous danger to neighboring and even distant countries. Different countries treat their own water resources differently. Diversions of rivers can yield harmful consequences for the ecology of certain regions sometimes on the territory of neighboring states. Problems such as these, and other issues connected with pollution, affect different countries to different extents. For example, coal

¹⁰ Joseph, R. "*NATO's Role in Counter-Proliferation*" in *NATO's Transformation*, ed. by Gordon, P. H., Rowman & Littlefield Publishers, Inc., 1997, p. 247.

exporting countries could be hit by a decision to decrease the emission of carbon-dioxide, and carbon-monoxide. Building dams on border rivers to produce electricity can hurt the interest of the other party by threatening it with an ecological catastrophe or the polluting of pure water resources. Therefore, ecological issues constitute a new set of international conflicts. Besides, the modernization of backward countries, exhaustion of energy resources, spreading of pollution across boundaries will probably cause even more difficulties and clashes in the future.

B. HUNGARY'S CLOSE SECURITY ENVIRONMENT: EXTERNAL STAKEHOLDERS IN HUNGARY'S SECURITY

The formulation of the international and security policy of a country has to be based on the assessment of the situation in the close environment. This part of the essay puts five countries — Slovakia, Ukraine, Romania, Serbia and Montenegro, and Russia — into the focus of inquiry. Hungary shares borders with three other countries — Austria, Slovenia, and Croatia — and the Central and Eastern European region consists of additional countries which are equally relevant for Hungary to formulate its policy. However, the analysis is limited to those five because they can be defined as the most problematic or determining forces in the region.

The evaluation of these five countries embraces their political situation, economic development, military forces, and foreign policy. The conclusion from the analysis is that there are two really hot issues for the region. First, the prevailing ethnic disputes, like the

situation in Kosovo, or the question of the 22 million Russians outside Russia, causes instability in the region. The second issue is the harsh economic situation in the countries, which impedes the democratization process, strengthens ethnic hostilities, and gives basis for the emergence of extremists forces on the political arena.

The results of the investigation are summarized in Table 1 which also offers some forecast of the future development in the region. Based on the investigation of the countries, four different scenarios emerged. The "peaceful cooperation and development" is an idealistic case, and constitutes a low probability of success in the short run. The "rolling down of a new iron curtain" seems to be the trend in Europe which threatens with a recurrence of the Cold War. The ethnic disputes, strives for political power or hegemonic ambitions may result in new military conflicts: "Balkans on fire", and "in the name of Russian brethren" scenarios.

1. Slovakia

Slovakia, the northern neighbor of Hungary, is a new country which appeared on the international arena after the split of Czechoslovakia in January 1993. The size of Slovakia by its territory, population, and economy is somewhat smaller than Hungary but the presence of Hungarian minorities and the prevailing issues of controversy between the two states make Slovakia an important stakeholder in Hungary's security. Slovakia is also important for both Hungary and NATO because it divides Hungary from the NATO area.

Democratization, political stability. The main concern around Slovakia, and the reason for being left out of NATO and EU enlargement, is its deviation from democratic rules and political instability. The three most problematic issues are the disputes with the Hungarian minority, the continuing political instability, and the conflict between President Michal Kovac, and the Prime Minister Vladimir Meciar.¹¹

Disputes with the Hungarian ethnic minority have become more intense since June 1992. Hungarian deputies to the Slovak National Council opposed the new Constitution for it did not protect the rights of ethnic minorities. There were also several violations of the rights of Hungarians. For example, the new Slovakian language law acknowledges only the Slovakian in the civil service, on road signs, and in advertisements. Hungarian language road signs were removed. Even the OSCE High Commissioner on National minorities, Max van der Stole, criticized the Slovak government's arrangement, particularly the termination of the use of minority languages in offices in Slovakia.¹²

For the last six years, Slovakia has had three different governments. The first Meciar government was removed in March 1994 with a vote of no-confidence a year after assuming the office. The following Moravcik government tried to pursue a more moderate internal policy. Yet Meciar's Movement for Democratic Slovakia (HZDS) in a coalition with Slovak Farmers Party won elections in October 1994. After his victory, Meciar formed a coalition government with the extreme-right Slovak National Party

¹¹ Jeffrey Simon offers a detailed analysis in his book NATO Enlargement and Central Europe, NDU Press, 1996.

¹² Simon, J., NATO Enlargement and Central Europe, NDU Press, 1996, p. 276.

(SNS) and the left-wing Association of Slovak Workers (ASW). Having in mind a coalition of parties with such a diverse set of values, one can hardly imagine smooth common governance.

Both terms of Vladimir Meciar were characterized by continuous conflicts between the President and the Prime Minister. Meciar cut the budget of the president's offices by 50% at the beginning of his second term. The President could not prevent the law about the Slovak Information Service. The law put the supervision of the intelligence services in hands of only the ruling parties. It seems that the Constitution did not provide sufficient power for the President to balance the actions of the government. The weaknesses of the Constitution made it also possible that this spring the National Council failed to elect a new president at the termination of Kovac's term. The result is that Meciar temporarily assumed the President's office, too, until the presidential election could be repeated.

Thus, the current internal situation suggests some problems around the Slovak Constitution. The democratic institutions have not been well establishedt in the country yet. Therefore, Vladimir Meciar's strong personality can influence the entire internal political arena:

He [Mr. Meciar] is authoritarian, even thuggish. The coalition he heads is intolerant and chauvinistic. He has crudely tried to unseat Slovakian president, Michal Kovac. His intelligence services, in a bizarre episode involving weird business dealings and political intrigue, probably kidnapped Mr. Kovac's son, filled him with booze, and had him driven across the border and dumped in Austria.¹³

¹³ "Slovakia. The Visegrad three...," The Economist, March 9 1996, p. 55.

Economic situation. Slovakia performed fairly well during the transition from the command economy to a market system. Stephen B. Heintz, assessing the results of economic transformation of former socialist countries, places Slovakia into the group of reform leaders (Table 2, Appendix):

Its economy looks quite bouncy: officially, it grew last year [1995] by 7.5%. Inflation is the region's lowest, at 6.2%. Foreign-exchange reserves are up seven-fold since 1993, to \$3.4 billion. The disappointment, for Slovakia, is that such Asian-like figures have yet to attract Asian level of foreign investment: only \$733m has flowed in since 1990.¹⁴

In spite of its good macroeconomic indicators, Slovakia might get into serious economic difficulties. In October last year, an analysis of the Asian exchange rate crisis found possible that Slovakia also might face similar turmoil because of its macroeconomic imbalances:

Slovakia faces a current-account deficit of more than 10% of GDP this year [1997], of which only one-tenth will be covered by foreign direct investment. The Slovak crown has remained pegged to a basket of currencies, and, as a result, has lost competitiveness against the D-mark and the Czech crown. The government budget deficit is almost 5% of GDP. New measures which threaten to undermine the independence of the central bank are not instilling confidence.¹⁵

Another source of problems can be the structure of Slovakia's export relying mainly on raw materials. At the same time, the import consists of high technology products, and consumer goods. This imbalance suggests the lack of economic efficiency. While the real wages, warned the IMF, have grown with a higher rate, about 10%, than the productivity of the economy.

¹⁴ "Slovakia. The Visegrad three..." *The Economist*, March 9 1996, p. 55.

¹⁵ "Something Horrible out There," *The Economist*, October 18, 1997, p. 71.

The approximately 14% level of unemployment is also a major concern. The unemployment can get even higher if the country takes on structural reforms. Nevertheless, the government is hesitant to launch comprehensive reorganization, or introduce the needed austerity program in a year of elections (1998).¹⁶

Military forces. Military forces in Slovakia have two branches: Army, and Air and Air Defense Forces. Since becoming an autonomous state, Slovakia has started the reorganization of its military forces. The country has established civilian control over the military, prepared a long-term development plan, and launched technical modernization.

Financial and economic capabilities will determine the size of the military forces in Slovakia. At the same time, there is a requirement to preserve the credibility and effectiveness of the military forces. The long-term plan is to reduce the military personnel to 35,000 (about 5,000 officers from 10,000, increase its warrant officers from 3,400 to 10,000, and its 400 NCOs to 5,000, resulting in a professional force approaching 55% of the armed forces) by the year 2000.¹⁷

As part of the technical modernization process, the Slovak Army, first among the former Warsaw Pact countries, accepted the NATO standard 155mm caliber for its artillery system. In November of last year, Slovakia ordered eight Zuzana 155mm self-

¹⁶ HVG, 97/18, p. 24. (HVG is the Weekly World Economy, a Hungarian journal of economics.)

¹⁷ Simon, J., NATO Enlargement and Central Europe, NDU Press, 1996, p. 270.

propelled howitzers from a Slovak company. It was the largest contract offered for a domestic contractor since the Slovak Army was formed.¹⁸

The modernization of the Air Force has also begun. Currently, Slovakia maintains 24 of MIG-29 which were inherited from the previous Czechoslovak Army, and partly obtained from Russia as compensation for debt. The country is planning to acquire Kamov Ka-50 "Hokum" combat helicopters, and Yakovlev Yak-130s light combat aircraft from Russia also as part of debt-compensation.¹⁹

One armament system, the SS-23 Spider theater ballistic missiles, has caused some confusion around the Slovakian military intentions in the region. These missiles are subject to the Intermediate Nuclear Forces Treaty of 1987, and have been withdrawn from countries other than Slovakia and Bulgaria. These two states as non-signatories are not in violation of the treaty. Even though Slovakia does not possess nuclear warheads, this equipment has a sufficient destroying capability. On the other hand, are there any signs of military threat justifying the holding of these missiles in service?

Assessing the defense capability of a country, requires the consideration of the military industry, as well. Slovakia possesses a solid military industry inherited from the former federation. As a matter of fact, Slovakia is an active participant in armament trade. For instance, it produces T-72 main battle tanks, the above-mentioned howitzers, and armored personnel vehicles BMP.

¹⁸ Jane's Defence Weekly, November 5, 1997, p.13.

¹⁹ International Defense Review, March 1, 1997, p. 10.

Foreign policy. Hungary and Slovakia have signed a Treaty on Good Neighborliness and Cooperation in March 1995. Hungary ratified the treaty soon after its signature. Slovakia ratified the treaty in May 1996 after long disputes in the National Council about it.

However, there are two issues of controversy between Hungary and Slovakia. The first is the above-mentioned treatment of the Hungarian minority in Slovakia. The ethnic issue became more serious since the assertion of the former Hungarian Prime Minister Jozsef Antall about his intention to be the Premier Minister of 17 million Hungarians including those living outside the country's borders.

The second debate is around a water dam at Gabcikovo. Originally, the plant was to be built and operated in common by the countries. At an early stage of building works, Hungary unilaterally terminated the agreement because of threatening ecological problems. Slovakia with scarce mineral resources and being in a need for electricity built the dam on Slovakian territory after distracting the border river Danube, and caused serious environmental damages in the region. The case was brought to the International Court in the Hague. The ruling of the Court was that the completed dam should not be demolished. However, the necessary water supply for the damaged region had to be ensured. The two countries are in search of an adequate solution but the agreement seems to be far away.

Slovakia's relations with NATO are controversial. On one hand, the Slovak Army maintains considerably good relations with the Alliance. The country's active participation in NATO's Partnership for Peace (PfP) program is highly appreciated by the

Western governments. Slovakia showed its enthusiasm for membership in NATO by submitting first among the CEE countries its discussion document. Also, the official rhetoric mentions membership in NATO and other North Atlantic organizations as issues of the highest priority. On the other hand, inclination from democratic principles and the failed referendum in May 1997 about the membership in NATO make Slovakia's commitment to the Western Alliance ambiguous:

Its becoming increasingly clear that Slovakia's relations with NATO are two-sided. Although Slovakia has proved to be a reliable partner on military front, it is moving further politically from the democratic standards established by its Western partners.²⁰

At the same time, a worrisome development can be observed in Slovakia's international relations: a closer relationship with Russia. A sign of it was mentioned in the May 6, 1995 issue of *The Economist*:

The prime minister's enthusiasm for the West is also belied, in Slovakia's foreign ministry, by a preponderance of diplomats involved in Russian affairs compared with western ones. Slovakia has one man dealing with NATO and six people in Brussels dealing with EU. Its embassy in Moscow (which is admittedly embroiled in trying to recoup the \$1.4 billion that Russia owes Slovakia), has some 60 people.²¹

Another example of the closing connections between Slovakia and Russia was Slovakia's defense minister's visit to Russia at the end of 1996, where he pointedly emphasized Slovakia's neutrality and ordered new communication equipment, and helicopters. Slovakia was also working on establishing a free-trade zone with Russia

²⁰ Fisher, S., "Slovakia's NATO Credentials Wane," *Jane's Intelligence Review*, May 1, 1996, p. 196.

because Peter Stanek, Meciar's economic advisor, saw the trade with Russia as a key for Slovakia's prosperity.²²

A later development in Russian-Slovak relations is the signing of a military agreement between Meciar and visiting Russian Prime Minister Victor Chernomyrdin in May 1997. This accord makes Slovakia's intention to join NATO even more controversial.²³

2. Ukraine

The shortest border Hungary shares is with her largest neighbor Ukraine to the northeast of the country. Because of its large territory, population, economic possibilities, Ukraine has to be considered a regional power. Because of this fact and the

difficulties around the Ukraine, the appraisal of the security situation around Hungary could not be complete without evaluating Ukraine.

Ukraine faces a twofold challenge. On one hand, the country is in a deep economic crisis which could be overcome through radical economic reforms that require serious sacrifices from the population. On the other hand, Ukraine is an "artificial creation"²⁴ which brings together several nationalities: Ukrainians, Russians, Jews,

²¹"*Slovakia; Two-faceted*," The Economist, May 6, 1995, p. 50.

²²"*Slovakia. Nice New Friends*," The Economist, December 21, 1996, p. 64.

²³"*Slovakia warned over Abuses*," Jane's Defense Weekly, May 7, 1997, p. 12.

²⁴"*The Mythic State*," The Economist, May 7, 1994.

Belarusians, Moldovans, Bulgarians, Poles, Hungarians, and Romanians. The failure of economic reforms may well trigger a civil war with such a diverse diaspora. Because of the large, 22%, Russian population, an internal upheaval could invoke Russian involvement, too. This possibility constitutes a considerable threat for the security of the CEE region.

Democratization, political stability. Ukraine is a relatively young state on the map of Europe which became independent after more than 300 years of Russian influence in December 1991. The country has three internal issues threatening its political stability. First, because of a short period of independent history, Ukraine is creating its own nation, and looking for its own identity. The second thing is that similarly to other former Soviet states, Ukraine has a large number of Russians in its population. The third issue is that communists have the largest group in Ukrainian Parliament, Rada, which puts under question, or makes difficult the continuation of the democratization and marketization process.

The history of Ukraine has not allowed Ukrainians to develop a their national identity. Periods of independent Ukrainian nation state were either long ago or too brief. Ukraine was only a part of the Russian empire on the map. They do not have traditional forces for national cohesiveness such as a single language or a strong church. Even President Bush told Ukrainians to stay inside the Soviet Union for their own interest four month before the declaration of independence.²⁵ Ukraine seems to have its own face on

²⁵ "The Mystic State," The Economist, May 7, 1994, p. 10.

the international arena but to mold national identity and cohesiveness will probably take a few generations.

A lack of national identity is also connected with a diverse ethnic composition of Ukraine. Only 73% of the population are Ukrainians. The second largest nationality is the 22% of Russians.²⁶ The remaining 5% are Jews, Belorussians, Moldovans, Bulgarians, Hungarians, and Romanians. The biggest headache is caused by Russians. The way they are treated largely determines the internal conditions in Ukraine and its relationship with Moscow.

In March of this year, Ukraine held the second free elections for the first seven years of its statehood. This was a mixed-type multiparty election in which representatives had two ways to gain admittance into Rada. The first possibility was the single representation of electoral regions and second, the voting for party lists. In spite of several faults during the elections, the inauguration of the mixed system has been an important step toward a modern multiparty democracy.

The outcome of the elections has not been joyful for the democratic forces. Obtaining 123 seats from 450, the Ukrainian Communist Party (UCP) has now the largest fraction in Rada. The composition of the government and Rada are different because the government is formed by the President after the presidential elections. The UCP strongly opposes the incumbent government; in fact, the UCP is a fierce adversary of the executive branch. The UCP's program aims to abolish the current administration and the

²⁶ Source: Central Intelligence Agency, <http://www.odci.gov/cia/publications/factbook/up.html>.

reestablishment of the basis of socialism. The UCP also is a ferocious opponent of market reforms and privatization as well. In such circumstances, President Leonid Kuchma is facing difficulties in continuing the reform process and is hesitating to introduce new unpopular reform measures considering the approaching presidential elections in 1999.²⁷

Economic situation. Assuming his office, President Kuchma introduced aggressive economic reforms with the liberalization of prices, trade and exchange rates and the launch of a privatization program. Kuchma's comprehensive economic reforms met considerable resistance from parliament, entrenched bureaucrats, and industrial interests. Stephen B. Heintz evaluates Ukraine as "lager," and argues that Ukraine has not reached its year of recovery by 1996 (Table 2, Appendix). The recovery year does not seem to be approaching even now, and it may be even moving away with the strengthening position of UCP:

Ukraine's bottom line looks bad. Although it had some success in tackling inflation, reducing the annual rate last year to 40% (and projecting 30% for the end of 1997), the economy remains deep in recession-GDP contracted by a frightening 10% last year and is widely expected to contract by a further 2% this year. Exports have failed to pick up, leaving Ukraine last year with a trade deficit of \$4 billion.²⁸

Ukraine was the most important economic component of the former Soviet Union. It has a large portion of fertile and arable land, and provided one-fourth of Soviet agricultural output. The country might easily be the breadbasket of Europe. The problem

²⁷ HVG, 98/14, April 17, 1998, pp. 33-34.

²⁸ "Ukraine Sinks," Foreign Report, Jane's Defence Information Group Limited, April 17, 1997.

is the backwardness of agricultural production. In the rural areas, one can see more horses than modern agricultural equipment and villagers live the lives of the "third-world subsistence farmers."²⁹ The further development is impeded with a lag in privatization. Private plots are less than 10% of all agricultural lands.³⁰

Ukraine has inherited a diverse heavy industry from the former USSR which supplied equipment and raw materials to industrial and mining sites of other regions. The large industrial complexes are impeded now by lack of demand for their products. Russia would need these products but cannot pay for them. On the other hand, these goods are not competitive and are not demanded in the western part of Europe. In order to change this situation, Ukraine has to carry out comprehensive structural reforms which are hindered by influence of different interest groups and interests of the Russian part of the population managing and working for the huge state companies. The other obstacle is, of course, the opposition from the side of the UCP with its stronger position in Rada.

Though, the CIA's country fact book finds possible the occurrence of real GDP growth in 1998³¹ if President Kuchma succeeds in implementing aggressive market reforms, and if the current internal political situation does not offer a real hope for a close breakthrough.

²⁹ "Better Late than Never, Maybe Ukraine," The Economist, July 22, 1995, p. 21.

³⁰ Ibid.

³¹ Central Intelligence Agency, <http://www.odci.gov/cia/publications/factbook/up.html>.

Military forces. After Russia, Ukraine has the largest, well-equipped military in the CEE region (Table 3, Appendix). Ukraine acceded to nuclear power status through the separation from the Soviet Union, and assumed respectable strategic forces with a large inventory of intercontinental ballistic missiles (176 missiles, and about 2,400 tactical warheads³²) and bombardiers. Its military force is also backed up by a large and strong military-industrial complex inherited from the former USSR, too. The country is the producer of the T-84 "super tank," military transport helicopters, planes possesses advanced space technology, and the largest rocket-producing factory in the world.³³

Ukraine's military doctrine sees international political crises as the main military threat for the country. The international political conflict can lead to economic, territorial, inter-ethnic, and religious conflicts. These conflicts may result in an aggressive "...design upon Ukraine by one state or a coalition of states in the form of politico-economic pressure, territorial demands, anti-Ukrainian propaganda and the inciting of ethnic animosity."³⁴

Ukraine has prepared the "State Program of Building and Developing the Armed Forces of Ukraine, 1995-2010." This plan provisions the reduction of personnel from 450,000 to 220,000 by the end of the decade. The project also aims to shift to the corps-

³² "Nuclear by a Whim of History: Ukraine's New Military Doctrine," International Defence Review, February 1, 1994, p. 6.

³³ "Ukraine's Aerospace Industry," Jane's Intelligence Review, February 1, 1996, p. 52.

³⁴ "Crisis and Reform in Ukraine-Part 2," Jane's Intelligence Review, November 1, 1996, p. 496.

brigade structure of the new armed forces backed by a main force of mechanized and tank brigades, with a priority given to infantry. As a result, Ukraine's armed forces would be smaller, leaner, more mobile, and better equipped. The plan has a conception for development of the Ukrainian Navy, too. Smaller military forces targeted by the Program would also give some relief for the economy.³⁵

The plan to have a smaller military force have prompted strong nationalist opposition. They consider at least a 450,000 man strong military as a guarantee of Ukraine's security. The victory of communists forces at the last elections makes suspicious the future commitment of Ukraine to carry out the reorganization Program of the armed forces.

However, there is a development inspiring confidence for not just the CEE region but the whole world. After a longstanding debate, Ukraine agreed to refrain from its nuclear power status. On June 1-2, 1996 the last former Soviet nuclear weapons were removed from the Ukraine and are sent to Russia. The removing of tactical nuclear arms by May 1992, 176 SS-18 and SS-22 ballistic missiles with 1,240 nuclear warheads, and 43 Tu-95MS and Tu-160 bombers with 372 nuclear-armed cruise missiles were repatriated from Ukraine to Russia.³⁶

Foreign policy. Since its independence, Ukraine has opted for a non-aligned status and neutrality in order not to alienate Russia. According to Ukraine's perception,

³⁵ Ibid.

³⁶ "Last Nuclear Weapons Leave Ukrainian Soil," Jane's Defence Weekly, June 12, 1996, p. 13.

the creation of a comprehensive universal or pan-European security system is the proper approach to provide security in contemporary Europe.³⁷ Arranging controversial issues, maintaining good relations with neighbors are the key issues for establishing a security system.

Ukraine has resolved border issues and other debates with all of its neighbors and has signed treaties on good neighborhood and cooperation. With Hungary, Ukraine did not even have any disputes. The treatment of Hungarian minorities in Ukraine is cited as an example by the Hungarian officials. The territorial issue between Ukraine and Romania was settled on the eve of NATO's Madrid Summit for Romania's intention to join NATO. The biggest debate Ukraine has with Russia is on issues of nuclear power status of Ukraine, about the split of the Black Sea Fleet, and the sovereignty of the Crimea. After a long period of debates, Boris Yeltsin and Leonid Kuchma signed on May 30, 1997 the Treaty on Friendship, Cooperation and Partnership between Russia and the Ukraine.³⁸

However, the Russian-Ukrainian relationship has remained burdened with the large Russian diaspora because nearly half of Russians living abroad inhabit the Ukraine. Kiev has a fear of a threat of a possible military intervention from Russia on behalf of their compatriots. On the other hand, Ukraine needs close relations with Russia because of the historically tight economic connections. Ukraine's goals in its relations with Russia are expressed in the "Program of the Activity of the Ukrainian Cabinet of Ministers":

³⁷ "Nuclear by a Whim of History: Ukraine's New Military Doctrine," International Defence Review, February 1, 1994, p. 6.

³⁸ Jane's Intelligence Review, July 1, 1997, p. 290.

The Program clearly outlines that Ukraine will continue to reject political or military integration with the CIS while actively co-operating within the economic sphere. Consequently, Ukraine has joined the CIS Inter-State Economic Committee but rejected membership of the Customs Union and Payments Union, and has remained an associate member of the Economic Union.³⁹

Finally, Ukraine seems to approach the West and NATO. Leaders in Kiev know that neutrality is not an alternative for the Ukraine for many reasons. However, in the short term, Ukraine does not seek membership in NATO because it needs time to overcome the economic and energy crises as well as undertake the nation- and state-building. One sign of upgrading of the NATO-Ukraine relations is the "Charter for a Distinctive Partnership Between NATO and Ukraine" signed on the Madrid Summit in June 1997. The aim of the Charter is to reaffirm NATO's support for Ukraine's sovereignty and independence, as well as to deepen the cooperation between the two parties.

A recent development in Ukraine's foreign policy is the formation of a new group within the CIS with Georgia, Azerbaijan, and Moldova known by the acronym GUAM which has defined its priorities at a meeting of the foreign ministers in Strasbourg last October:

[T]he fight against separatism and regional conflicts; development of the Eurasian and Transcaucasus corridors; and integration into Euro-Atlantic and Atlantic structures.⁴⁰

³⁹ "Ukraine's Security Dilemmas," *Jane's Intelligence Review*, January 1, 1996, p. 11.

⁴⁰ "Russia Bypassed by New Co-operation," *Jane's Intelligence Review*, February 1, 1998, p. 4.

Officially, GUAM is not aimed against Russia, but the mere fact of its establishment shows the will of these four nations to avoid a Russian influence. The Baku Panorama also suggests that the real goal of the group is to restrain Russia's urge towards unification of the former Soviet republics and their desire to distance themselves from Russia.⁴¹

3. Romania

Romania is the southeastern neighbor of Hungary. The country is bigger by all its parameters than Hungary. The majority of Hungarians living in a foreign country, about 1.6m, live in Romania. Romania has rich stocks of mineral resources and possesses the ability to develop a strong prosperous economy. The military forces of Romania are well equipped and well trained. The country is engaged in a modernization and reorganization project of its armed forces.

Democratic institutions are present in Romania. However, serious economic difficulties trigger political instability in the country. In a worst case, economic troubles may result in an undesirable political outcome: the strengthening nationalism and the blaming of foreign countries for their problems. These considerations make Romania an important stakeholder in Hungary's security.

Democratization, political stability. The left-nationalist, ex-government of President Ion Iliescu from 1990 to 1996 did not deserve a high reputation by the West.

⁴¹ Ibid.

This situation has been changed by now. Except for minor troubles, Romania has established a working democracy under its next government of President Emil Constantinescu (Table 4, Appendix). The defeat of the ex-communist government and the inauguration of the center-right coalition (Peasants, Petre Roman's Democratic Party, the ethnically-based Hungarian Party, and the Democratic Convention umbrella organization) in November of 1996 improved the prospects of democracy in Romania:

Romania's neo-communist regime was removed from power last November in freely contested elections. Violence against ethnic Hungarians in Romania, widely predicted did not happen; old rivals Hungary and Romania are now allies; and ethnic Hungarians are members of Romania's ruling coalition.⁴²

However, the new government's ethnic policy has seen some trouble. The Romanian parliament voted against the Hungarian's new education rights thus, forbidding them to use Hungarian-speaking faculties in universities. In response, the Hungarian Democratic Federation for Romania threatened to leave the coalition. President Emil Constantinescu undertook to override the parliament's decision. The rights of Hungarians face strong local opposition, too. For instance, Georghe Funar, mayor of Cluj, changed the historic street-names in the city and also had council workers steal the Hungarian flag from the newly opened consulate.

Besides the ethnic disputes, the political situation in Romania is unstable because of the serious economic difficulties. Victor Ciorbea, the Prime Minister, falling short to

⁴² "Balkan Insecurity," Foreign Report, Jane's Information Group Limited, November 6, 1997.

carry out his economic reforms, was forced to resign at the beginning of April this year.

The former coalition formed a new government by the end of April but it may face a really hard time:

[T]he government looks as messy as ever. The Social Democrats want tough reforms; the ethnic Hungarian party wants a better deal for ethnic Hungarians; and the Christian Democrats want to hand back land and property to the pre-communist owners.⁴³

Before the inauguration of the new government, the political situation in Romania was rather ambiguous since the ruling forces in the parliament have remained of the same parties. The evaluation by the Foreign Report of Jane's Defense Information Group is disturbing:

[I]t is almost impossible to see how the current impasse can be resolved. The government does not command a majority in parliament, but dares not risk another election, mainly because the opposition is composed of communists, ex-communists and blatantly fascist parties, and these are themselves deeply divide. At the very best, therefore, fresh elections either recreate the current fractured parliament, or bring to power some of the least lovable politicians Eastern Europe ever conceived.⁴⁴

On top of it all, Romanians are deeply disappointed by being left out of the first round of NATO enlargement. The government has been focused on Romania's accession to NATO. Also, the Romanian public strongly favored NATO membership. According to an opinion poll organized in late spring, 1997, 76% of the national sample favored

⁴³ "Romania's Last Chance," Foreign Report, Jane's Information Group Limited, April 23, 1998.

⁴⁴ "Romania's Golden Opportunity," Foreign Report, Jane's Information Group Limited, April 23, 1998.

Romania's joining NATO.⁴⁵ Analyzing the Madrid decision, Daniel N. Nelson and Thomas S. Szayna in one of the RAND Corporation's papers discussed the Romanian case:

Romania's exclusion from the first group of invitees will have consequences. Although Foreign Minister Severin and others in spring, 1997 visits to Washington, D.C. made it clear at Bucharest will not abandon its focus on NATO because no offer for membership came from Madrid, he and others in the Constantinescu government expect political fallout.⁴⁶

Economic situation. However, Stephen B. Heintz places Romania into the group of "comers." (Table 2, Appendix) in his analysis, the Romanian economy faces some substantial crises. The economy is burdened with worrisome macroeconomic indicators. The transformation to the free market goes hesitantly. The share of the private sector in GDP is one of the lowest among transition countries. The EU evaluation (Table 2, Appendix) also finds that the Romanian economy would have had a hard time to compete with Western firms in case of a recent accession of Romania to EU.

The results of the Romanian economy for 1997 have been very poor. The yearly inflation reached a three-digit level, about 150 to 160%. The GDP is estimated to decrease to 5-6% for 1997. The exchange rate of the Romanian currency quickly increases since the beginning of this year.⁴⁷

⁴⁵ Nelson, D.N., Szayna T.S. "NATO's Metamorphosis and Central European Politics: Effects of Alliance Transformation," RAND, P-8010, 1997, p. 38.

⁴⁶ Ibid., p. 39.

⁴⁷ HVG, 98/02, January 17, 1998, p. 17.

The privatization in Romania is lagging behind in comparison to the other countries of the former socialist lager. By the end of 1997, less than the half of the state owned companies went to the private sector.⁴⁸ Romania has also failed to reorganize its economic structure. Several industrial giants owned by the state are to be restructured or closed. The continuation of privatization, and the restructuring of the industry threatens with a substantial increase of the surprisingly low, officially around 7% in last year⁴⁹, unemployment level.

In addition, the Romanian economy suffers several other problems. The country is short on managers acquainted with acquainted with market practices. The economy needs capital to carry out the modernization and restructuring of companies. Finally, the economic insufficiencies provide a very low income level for the population. This results in a decrease of consumption which holds back economic development.

Even though, the EU evaluation mentions significant improvement in establishing market economy in Romania, the country has a long way to go. An analysis of the prospects of the new government established in April 1998 shows that although Romania has an opportunity to reform its economy it may face further economic difficulties:

Romania has a "golden opportunity" to carry out structural economic reforms and eventually join the European Union. If Romania is given a decisive role, there is still hope. By carrying on as it is, Romania is heading straight for the poorhouse.⁵⁰

⁴⁸ HVG 97/50, December 13, 1997, p. 57.

⁴⁹ "Romania Starts to Rebuilt," The Economist, May 3, 1997, p. 39.

⁵⁰ "Romania's Last Chance," Foreign Report, Jane's Information Group Limited, April 23, 1998.

Military forces. Romania has larger and better equipped military forces than Hungary (Table 3, Appendix). However, as a majority of the countries, Romania has also started to reform and decrease its army. The reform process has been divided into two separate phases. The first period between 1990 and 1992 was devoted to depolitization and the establishment of civil control over the military. The second phase focuses on the reorganization and modernization of the military forces.⁵¹

During the reorganization project called "Armed Forces 2000," Romania has planned to change the division-regiment type structure of its army into the traditional NATO brigade-battalion formations. Another feature of this reform is the plan to increase the number of professional inside the military and to have half professionals and half conscripts by the end of the project.⁵² In January 1998, Romania announced its intention to decrease its military personnel from the recent 200,000 plus to a strength of 140,000 in order to free funds for modernization.⁵³

Concerning armament, Romania has finished the reduction of its military equipment as determined by the CFE Treaty. Romania has also started technical modernization. Together with Turkey, it has a project to develop and produce the RN-94

⁵¹ "Changes in the Romanian Armed Forces," Jane's Defence Weekly, January 1, 1995.

⁵² "Romania Makes the New Structure a Priority," Jane's Defence Weekly, December 1, 1994, p. 69.

⁵³ "Romania to Cut Personnel," Jane's Defence Weekly, January 28, 1998, p. 3.

6x6 amphibious armored personnel carrier.⁵⁴ Romania's air force possesses MIG-29s, the first of which were received already in 1990.⁵⁵ At the same time, the Romanian Aerostar with the Israeli Elbit have been working on upgrading 100 of Romania's aging 200 MIG-21 fighter aircraft to NATO standards.⁵⁶ Bucharest wants to have Western type aircraft, too. Last year, it announced plans to acquire up to 12 used US fighters, and awarded a contract to deliver 96 AH-1RO Cobra helicopters produced by the Brasso, Romania, facility of the American Bell and Textron companies. Romania, first among the former Warsaw Pact members, has already received four excess USAF C-130s, and requires eight or nine more.⁵⁷ The intention is to use them for peacekeeping purposes and to quickly transport troops into hot regions.⁵⁸

Romania has an effective armament industry, too. The industry of the country is able to provide 85% of its military needs during the Warsaw Pact time. Romania has committed itself to rebuilt its military industry to provide for its own, and export needs:

Now the government is looking for new areas of co-operation. It has formed a special military industrial group in the state sector that will exploit Romania's low labor and plant cost in the AFV [armored fighting vehicles], artillery, and missile sectors. It will also have an overhaul responsibility for warship and other naval programs, both domestic and export.⁵⁹

⁵⁴ "Romania, Turkey Set Sights on Joint APC," Jane's Defence Weekly, October 7, 1995, p. 31.

⁵⁵ "Romania Flies into an Austere Future," Jane's Defence Weekly, January 23, 1993, p. 26.

⁵⁶ "Elbit in Joint Venture with Romanian Company," Jane's Defence Weekly, February 11, 1998, p. 21.

⁵⁷ "Romania, Slovenia Seek US Fighter Briefings," Jane's Defence Weekly, August 6, 1997, p. 11.

⁵⁸ "Romania Receives First Two C-130Bs from USA," Jane's Defence Weekly, October 30, 1996, p. 11.

⁵⁹ "Seeking Links to Keep the Edge," Jane's Defence Weekly, June 25, 1994, p. 30.

Foreign policy. Romania has pursued a good neighbor policy particularly since the establishment of its new government in 1996. The other feature of Romania's external policy is the country's yearn for accession into NATO and the European Union.

The historical antagonism between Romania and Hungary in connection with Hungarian minorities has vanished. The two countries have signed a friendship treaty on borders and minority rights in 1996. From the Romanian side, the treaty was signed by President Ion Iliescu before leaving his office. The treaty has been ratified by both countries and sufficiently improved the relationship between the two states for the sake of accession into NATO.

Furthermore, Romania has signed and ratified a friendship treaty with the Ukraine proclaiming the current borders between the two countries to be inviolable. Thus, Romania has met one of the requirements, not to have border disputes with neighbors, of both NATO and EU accession.⁶⁰

Romania sees its future being ensured through membership in NATO and the EU. Therefore, the country exerts any possible effort to achieve this goal. Romania was the first nation to sign the NATO's PfP program, considering it as a first step toward NATO membership. Soon after this act, Romania offered troops for participation in peacekeeping operations.⁶¹ Romania has been very active in PfP exercises, education, and

⁶⁰ Foreign Report, Jane's Information Group Limited, May 15, 1997.

⁶¹ "Romania First to Join NATO 'Partnership,'" Jane's Defence Weekly, February 5, 1994, p. 6.

other programs. The search for possible ways of military cooperation and cooperation in defense industries indicate more signs of Romania's commitment to NATO membership.

4. Serbia and Montenegro

Serbia and Montenegro is a country bordering with Hungary from south. The geographical size and population of Serbia and Montenegro is comparable to that of Hungary. The country has been formed in the stormy demise of the Socialist Federal Republic of Yugoslavia. Serbia and Montenegro proclaimed itself the Federal Republic of Yugoslavia. However, the name and the legitimacy of the formation are somehow controversial because the successor countries could not agree about the division of the formally common federal assets and the continuity of rights and liabilities of the predecessor Yugoslavia. Therefore, the USA has not recognized the Federal Republic of Yugoslavia and its rights for succession of the former state.

Serbia and Montenegro as well as the Balkans are "hot spots" on the map of Europe considering the bloody war and national antagonism of the beginning of 1990s. The region is alarming even after the more than two years since the Dayton settlement. The revival of the long-standing antagonism between Serbs and Albanians in Serbian Kosovo projects the possibility of a new hostility and the danger of recourse to military clashes. The internal hostility may than well escalate into the neighboring countries: Albania, Montenegro, and possibly to Bulgaria, and Greece as well. Such a turn of events composes a high risk for the entire Europe and Hungary in particular. A military conflict would induce a new wave of refugees toward the neighboring countries, and Western

Europe, would threaten with a spill over of fighting to the territory of neighbors, and would raise serious concerns in Hungary about the fate of Hungarian minority living in Vojvodina (part of Serbia and Montenegro).

Democratization, political stability. The democracy and political stability in Serbia and Montenegro is threatened by two developments. First is the autocratic political power and extremists parties and the second connected with ethnic tensions between Serbs and Albanians.

Serbia and Montenegro compose a federation, and has two state presidents, and a president of the federation. Slobodan Milosevic was the President of Serbia since 1990 and built up a strong position for himself. According to the Serbian Constitution, one can have no more than two terms as president of Serbia. Milosevic, after his second term, has obtained the presidency of the federation last year, and started to strengthen the influence of the formerly weak position. A more worrisome development is the strengthening of the radical political forces which were seen during the presidential election in Serbia in 1997:

Suddenly Slobodan Milosevic, Yugoslavia's authoritarian president and once the Balkans' chief troublemaker, looks almost lovable — because an even nastier man has come within a whisker of becoming president of Serbia, the bigger of republics that make up what is left of Yugoslavia. The near-winner was Vojislav Seselj, an even more virulent nationalist, whose first act, as he celebrated his lead in the vote count over Zoran Lilic, the (ex-communist) Socialist candidate picked as a would-be stooge by Mr. Milosevic, was to cut a cake in the shape of "Greater Serbia."⁶²

⁶² "Serbia's Grasping Strongman," The Economist, October 11, 1997, p. 56.

Even though Vojislav Seselj did not win the presidency at the second round of elections, Milosevic offered and gave him a deputy prime minister post, one of the five, in the Serbia's government this year. Now, Seselj's ultra-nationalist Serbian Radical Party has 15 of 36 posts in the cabinet. Seselj, "an intelligent brute," is widely feared in Kosovo and Montenegro because he helped — with the Milosevic's approval — the organization of bloody ethnic cleansing of non-Serbs in the war of early 1990s.⁶³

Thus, we have arrived to the ethnic tensions in Kosovo, a territory with 90% Albanians in its population. Ethnic complications have arisen from Kosovo's ambitions for autonomy. The formerly Autonomic Territory of Kosovo in the old Yugoslavia has become an integrated part of Serbia in 1990 in order to suppress the aspirations of the Albanian majority for independence. The "reintegration" of Kosovo into Serbia was disastrous for the Albanians. Thousands of them lost their jobs, their schools and universities were closed and all of the political power went over the hands of the 10% Serbs. However, the Albanians have never given up their ambitions and they have maintained their own administration in parallel with the official Serbian authorities. By now, the situation became a real stalemate. The Albanians have their own working administration, never acknowledged as legitimate by Serbia; the Serbs have the police and the armed forces under their rule. Even the assimilation of Albanians is impossible because of their large number, and lingual and religious differences exist between the two nationalities. As far as the recent situation, Kosovo can easily become a second Bosnia

⁶³ Ibid.

with a high possibility of involving the neighboring countries, all of which have more or less Albanian population.⁶⁴ Military clashes of the last month have become more frequent, signaling the operation of the Kosovo Liberation Army.

Economic situation. As it can be imagined after a four-year war, and imposed by the international community sanctions, the economy of Serbia and Montenegro is disastrous:

As for the economy, it is now in a worse state than it was under sanctions. After the Dayton accord ended the war in Bosnia last November, many Serbs expected a quick recovery. But industrial output in July, though 15% higher than in July 1995, was still 41% below that of July 1991. Average salaries stand at DM185 (\$125) a month and living standards are lower than a year ago. Serbia will pay the price of war for fully a decade to come.⁶⁵

Two obstacles make the economic recovery more difficult. In 1996, the UN had not ceased the economic embargo, but just suspended it, and it could be easily reimposed if necessary. It prevents the majority of investors to bring capital into the country. At the same time, Serbia and Montenegro is separated with an "outer wall" from the international financial institution — IMF, EBRD — because of electoral fraud. Yet, the wall will probably remain until a satisfactory arrangement of the Albanian question. On the other hand, Mr Milosevic and his "team" do not focus on economic issues. Calling it

⁶⁴ HVG, 98/12, March 28, 1998, p. 30.

⁶⁵ "Serbia. Grand Illusion," The Economist, August 31, 1996, p. 44.

privatization, Milosevic sells large parts of companies to foreign entities to maintain his political image giving social benefits or paying pensions from the revenues.⁶⁶

Military forces. Serbia and Montenegro have acquired practically the entire military forces of the Former Yugoslavia. Although, it is difficult to attain reliable data about the real holdings, according to the numbers published, the military forces are not sufficiently stronger than the Hungarian Armed Force (Table 3, Appendix). The single most significant factor that really favors the Yugoslavian National Army (YNA) is the fighting experience gained during the recent war.

A promising development occurred in the behavior of army personnel. Last year, the army refused to take to the streets again to support Milosevic, as it did six years ago in confrontation with opposition groups. Another extremist threatened the Government with a possible military coup also was cooled down by senior military leaders. The reason for turning away from the ruling Socialist Party may well be the lack of funds.⁶⁷ For instance, the defense budget appropriated for 1998 is 67.5% of that requested, and 72% of that will be spent for personnel expenses.⁶⁸

Because of insufficient funding the modernization of the obsolete military equipment of YNA has not started as yet. Claiming raw materials for its industry, Yugoslavia refused to receive Russian MIG-29s in a weapon-for-debt deal in 1996.

⁶⁶ Ibid.

⁶⁷ "The JA Stays out of the Troubled Serb Politics," Jane's Intelligence Review, March 1, 1997, p. 3.

⁶⁸ "Yugoslav Budget is Approved," Jane's Defence Weekly, January 14, 1998, p. 13.

However, Yugoslavia expressed its interest for acquiring MI-24 attack helicopters and Tunguska self-propelled air-defense system. A real sphere of interest in the Russia-Yugoslavia military-technical cooperation is the modernization of current equipment owned by YNA:

It is [...] Yugoslavia which represents a particularly attractive market for the Russians and their military upgrades. Following the signing of the 1997 agreement on military-technical co-operation, Yugoslav Defence Minister Pavle Bulatovic explained the rationale behind the agreement pointing out that the existing Yugoslav weaponry, mainly ex-Soviet stock, needs to be "serviced and overhauled."⁶⁹

Foreign policy. Serbia and Montenegro have several issues of debate with the countries once comprising the old Yugoslavia. For one thing, they cannot reach an agreement about the division of the former federation's assets. Serbia feels responsibility for its brothers living outside of its borders. A long-lasting issue is with Croatia about the Prevlaka Peninsula in southern Croatia because it controls the entrance to Kotor Bay in Montenegro.⁷⁰

The Republic of Yugoslavia has traditionally had good relations with Russia. Russia helped Serbs during the Bosnian crisis protesting against bombing of Serb territories by NATO forces, or by trying to prevent or the easing economic sanctions by

⁶⁹ "Russia Chases Fewer Clients as Former Satellites Look West," Jane's Intelligence Review, May 1, 1998, p. 12.

⁷⁰ Central Intelligence Agency, <http://www.odci.gov/cia/publications/factbook/sr.html>.

the international community. The two countries have signed a military accord in 1995 with a condition that the agreement would not come into effect until the trade sanctions were lifted.⁷¹

However, the connections with western countries are not as good as with Russia. The reason is, of course, the strict economic embargo imposed by UN in 1992 that was just suspended, not lifted, after the Dayton agreement. There has remained an "outer wall" which separates Serbia and Montenegro from the international financial institutions. For Milosevic, the ceasing of sanctions, and reintegration into the world economic system might even appear undesirable. It is so because the economy of the country is run mainly by Milosevic's close friends. And the western investors would hardly tolerate their shady dealings.⁷²

5. Russia

In spite of its weakness now, Russia is a big power of Europe with its huge size, richness in minerals and raw materials, and because of its largest military force in Europe. Russia is never as strong, or never as weak as it seems to be. It is also not the case that the small Hungary could pursue a policy from the position of power against Russia. Nevertheless, we cannot omit Russia from the analysis of the security situation of Hungary for at least two reasons. First, even a weak Russia can exercise a considerable influence

⁷¹ "Russia, Yugoslavia Sign Military Accord," Jane's Defence Weekly, March 18, 1995, p. 8.

⁷² "The Balkans. The Fire is Being Rekindled," The Economist, March 7, 1998, p. 55.

on Europe, and cause hard or good times for the world, and with Hungary part of it as well. Second, even a small power, like Hungary can maintain a policy of influencing the behavior of strong countries.

Russia today is a country with an ill-suited economy but with a desire to establish a working market economy. Its military is breaking up, too. Losing its former influence in the region, Russia is looking for a new identity with a dream to gain back its earlier superpower position. Russia is also engaged in its perceived mission to ensure the rights of the 25 millions of Russian people who remained in neighboring countries after the demise of the former Soviet Union. Russia currently is a huge country with huge troubles.

Democratization, political stability. Because of their character, Russian peoples need, and have always needed, a strong leader whom they can follow. Historically, this leader was the tsar, then came Lenin and Stalin, and the other first secretaries of the Communist Party of the Soviet Union. Therefore, the presidential system with extended power of the president seems to be well suited for the country. The President of Russian Federation is elected by popular vote for a four-year term. The President has the right to appoint the premier minister and the deputies with the approval of the State Duma, the lower house of the Russian parliament.

The power of the President is well displayed in the last change of the government. Unsatisfied with the development of economic reforms, Boris Yeltsin dissolved the incumbent government led by Viktor Chernomyrdin in March 1998. When the President named his new candidate for heading the government, he also warned the Duma that if it would fail to approve the nomination, the President was going to dissolve the Duma, too.

Anyhow, the political stability of Russia can be endangered. President Yeltsin has a strong pro-reform commitment while the largest fraction in the parliament is formed by the anti-market Communists Party of the Russian Federation. The head of the communist party, Gennadiy Zyuganov was the opponent of Boris Yeltsin at the last presidential elections in 1996 and gathered 40% of the popular votes (Yeltsin had 54%). Another considerable opponent of Yeltsin in the Duma is the ultranationalist Liberal Democratic Party of Russia (LDP) headed by Vladimir Zhirinovskiy. Though the Liberal Party has only 11% of the seats in the recent Duma, it gained 24% of the popular votes in the parliamentary elections of December 1993. And public dissatisfaction is growing:

Angered by the extent of mafia power coupled with government corruption and by government's inability to regulate the present economic system, many Russians are looking at the more extreme political parties, deserting the political center.⁷³

Although Zhirinovskiy does not have significant political appeal, and may not present a definite threat to Yeltsin, the deteriorating public mood and Zhirinovskiy's ultra-extremists ideas are worth considering seriously:

Zhirinovskiy's neofascist rhetoric finds an audience in those frustrated by the recent decline in Russia's power. He claims outlandish territorial goals if elected. The LDP has an aggressive foreign policy agenda, pledging to reunite Russians in the "near abroad" (a common Russian term for the former Soviet Republics) by forcefully resurrecting the Soviet Union. LDP domestic policy is no less alarming. The LDP is both overly racist and anti-

⁷³ Riggs M.G., The Russian Mafia and the Criminalization of the Reform Process, The International Relations Journal, Winter 1997, published by the San Francisco State University, p. 113.

Semitic. Zhirinovskiy asserts, "I may have to shoot one hundred thousand people, but the other three hundred million will live peacefully. I have the right to shoot these hundred thousand."⁷⁴

It does not mean that the reform process could be turned back. Anyway it is looked at, the future division of internal political power in Russia is uncertain, and the next elections can cause undesirable consequences and difficulties for the West. A possible communist triumph would further slow down the transition and a growing ultranationalist influence would make Russia's foreign policy aggressive, especially in the "near abroad."

*Economic situation.*⁷⁵ Russia started the transformation from socialist planning to the free market. Since then the privatization passed over 70% in the industry but lagged far behind in the agrarian sector. However, Russia did not reach its recovery year by 1996 according to Stephen B. Heintz (Table 2, Appendix). The estimates of economic development in Russia in 1996 showed further decline in both the GDP and industrial output by 6%, and 5% respectively.

Two successes can be mentioned. First, the results of the fight against inflation which fell from 131% in 1995 to 22% in 1996. The second thing is a slight improvement in the standard of living, about an 8% increase of average income in real terms for the last

⁷⁴ Ibid., p. 113.

⁷⁵ The economic date has been found in the fact book of the Central Intelligence Agency, <http://www.odci.gov/cia/publications/factbook/rs.html>.

several years according to Russian statistical records, for the last several years. However, this improvement was backed up with financial aid given by the West to help Yeltsin's reelection.

Russia has failed to address several other critical issues. The restructuring of the social welfare system has not happened. The implementation of a comprehensive taxation system⁷⁶ was also missed, while tax collection felt short in comparison to what was budgeted. The restructuring of the industry was behind schedule, too. The establishment of new working places went slowly because of a lack of capital and a very low level of foreign investment. In addition, Russia has a never before seen level of unemployment:

Unemployment in Russia, traditionally low during Soviet times, has skyrocketed since the reform process began. Increased unemployment is normal in reforming economies, but in Russia it is acute and may worsen. A report by the International Labor Organization concluded in January 1997 that unemployment in Russia has been chronically underestimated and is well over 10% [the officially recognized level].⁷⁷

After all, it is little wonder that Yeltsin changed his government as the general public is discontented. The economic difficulties may well invoke a nostalgia for the best times of the socialism and the strengthening of nationalism.

⁷⁶ According to the recent taxation system, Russian companies, and entrepreneurs pay income taxes based on the revenues instead of the real profit they earned.

⁷⁷ Riggs M.G., *The Russian Mafia and the Criminalization of the Reform Process*, The International Relations Journal, Winter 1997, published by the San Francisco State University, p. 108.

Military forces. In November 1992, the Security Council of the Russian Federation approved the new Military Doctrine⁷⁸. Although the new doctrine departs from the old Soviet one, it has new elements.

According to the document, Russia does not identify any state as an adversary, and every nation which does not harm Russian interests and complies with the UN Charter is regarded as partner. The basic approach to security is cooperation with partners in maintaining peace and in preventing war and armed conflicts. The document emphasizes nonmilitary means of ensuring security, such as confidence building measures in military matters, information-exchange about armed forces, as well as coordination of military doctrines with allies and partners. Mutual military cooperation is to be maintained especially with members of CIS (Commonwealth of Independent States), and countries of CEE.

The possibility of a large scale military conflict or a nuclear war is perceived to be diminished but some sources of military conflicts still prevail. The origins of conflicts are social, political, economic, religious, national, and ethnic rivalries. Military threats can appear in the form of territorial claims, the mistreatment of Russian minorities living outside of the Russian homeland, and the "expansion of military blocs and alliances to the detriment of the interest of military security of Russia."⁷⁹

⁷⁸ An analysis of Russia's new Military Doctrine appeared in *The Economist*, *Russia's Military Doctrine: Addressing New Security Requirements*, January 1, 1994, p. 5

⁷⁹ Ibid.

A new task of the Russian military forces is peacekeeping as mandated by the UN Security Council. Besides the national or collective self-defense, the military force can be used to cease military conflicts in order to safeguard Russia's vital interest.

Even if military means are just the last resorts in providing for security, a country needs armed forces which are well prepared, disciplined, and accepts civilian control over themselves. The German foreign office reported that "Russian armed forces are in crisis."⁸⁰ The conclusion of the foreign office reinforces the report of Reuters:

The army has long ceased to be a guarantee against external threats. The present state of the Russian Army can only be described as a catastrophe of the armed forces which is growing into a national catastrophe. Within the next three years the Army, if it is not reformed, will disappear as such, or it will break into armed groups which makes ends meet through selling arms or robberies, or there could be a military coup which could grow into dictatorship or civil war.⁸¹

The Russian military budget has substantially decreased for the period 1992 to 1996 from \$171 billion to \$76 billion in constant 1995 dollars. The training of the forces is inadequate. For instance, in 1994 only 30% of all planned exercises were completed, 60% of which were only command post exercises without forces involved. The biggest portion of the force is not combat ready. Fifty one land force divisions of 81, or 14 brigades of 25 are not in a state of operational readiness. The majority of fighters

⁸⁰ "The Russian Armed Forces: from Super Power to Limited Power," Jane's Defence Weekly, February 14, 1996, p. 17.

⁸¹ Reuters, 2/14/97. (The citation was found in Matthew G. Riggs article "The Russian Mafia and the Criminalization of the Reform Process" which appeared in The International Relations Journal, Winter 1997, published by the San Francisco State University).

and bombers Russia received from the former Soviet Union are now stored or have been destroyed. The German study concludes, "Russia's power projection capability must be considered insufficient to operate outside the former Soviet Union."⁸²

Because of economic difficulties, Russia has decided to reorganize and substantially cut its military forces. The reform process is planned to have two phases. In the first phase from 1997 to 2002, the personnel are to be cut down to 1.2 million. About 200,000 officers, and about 300,000 civil servants will leave the military. The other feature of the reform is that the branch of military forces is to be decreased from the former five to three. By now, the Troops of Air Defense Forces has been integrated into the Air and Space Forces. During the second phase of reorganization, the Strategic Rocket Forces will be eliminated as an independent service, leaving the Russian military with three branches: Air and Space Forces, Army, and the Navy.⁸³

Modernizing its forces, Russia has finished the development and testing of the SS-27 (Topol-M) intercontinental ballistic missile last year. The new missiles with 10,500 km range are to form the nucleus of Russia's future nuclear deterrence. The new missile will be deployed with a single warhead to satisfy the requirements of the Russian-US Strategic Arms Reduction Treaties. In connection with the missiles, Col. Gen. Vladimir Yakovlev

⁸² "The Russian Armed Forces: from Super Power to Limited Power," Jane's Defence Weekly, February 14, 1996, p. 17.

⁸³ Deputy Chief of the General Staff Lt. Gen. Vladislav Putilin who is responsible for internal reform of Russian armed forces, and also deals with foreign relations gave an interview to the Jane's Defence Weekly, April 8, 1998, p. 30.

stated that Russia's intention is to retain the nuclear power status in the 21st century for the sake of global strategic stability.⁸⁴

Foreign policy. Nothing is certain in Russia's foreign policy. It pursues a reclamation of its superpower position which is hard to achieve without solid economic background. Russia also seeks to gain back its influence over the countries of the former Soviet Union and even countries of Central Europe. Moscow disapproves of the enlargement of NATO with the Czech Republic, Hungary, and Poland. On the other hand, it desires closer connection with the European Union and the entanglement into the world economic system through membership in World Trade Organization. Russia is also gaining participation in the G7 by its widening to the G8. For the purpose of this study, we will look at Russia's "near abroad," and Central European relations, and the development of the NATO-Russia affairs.

Noted by one Russian concept to gain back its former status is to ensure that the former Soviet republics and to some extent Eastern Europe are recognized as Russia's sphere of influence. Part of this strategy is the perceived privilege of Russia to defend ethnic Russians no matter where they live. Russia considers the former members of the Soviet Union as "near abroad" and takes the responsibility of assuring the security of that region. In order to reestablish its influence, there was the foundation of the Commonwealth of Independent States (CIS) under Russian initiative. The problem for Russia is that except for Belarus, no country seems to have enthusiasm for the new

⁸⁴ "Russia Will Field Topol-M ICBM by End of This Year," Jane's Defence Weekly, July 16, 1997, p. 3.

formation. Recognizing the resistance of the countries under consideration, Russia has changed its approach by erasing the term "near abroad" from its official vocabulary. This minor change does not signal a real shift in Russia's policy. *The Economist* dispenses with the idea in one of its articles:

Russia has suddenly noticed that the CIS, at the best of times a rickety creation bringing together all the countries of the old Soviet Union save for the Baltic states, is in danger of failing apart entirely. Yet it still offers the best hope Russia has of keeping and even spreading its diplomatic and economic interest beyond its borders.⁸⁵

The relationship between Russia and NATO has been controversial. Although both sides assert that they do not consider each other adversaries any longer, the establishment and maintenance of close cooperation are hardly effective processes. Russia joined the NATO Partnership for Peace for Program after some conflicts about the alliance program and claims for "special protocol" reflecting Russia's superpower status.⁸⁶ Finally, the parties concluded with an "enhanced dialogue" agreement which included such issues as nuclear disarmament, the prevention of the spread of weapons of mass destruction, dealing with crises in Europe, and preparation for peacekeeping missions.⁸⁷ However, the cooperation seems to work haltingly. A senior NATO official evaluated it as "extremely disappointing."⁸⁸

⁸⁵ "Russia's Old Empire. So Near and Yet so Far," *The Economist*, January 31, 1998, p. 53.

⁸⁶ "Russia Seeks 'Special Protocol' with NATO," *Jane's Defence Weekly*, May 21, 1994, p. 8.

⁸⁷ "Russia Comes in from the Cold to Join Pfp," *Jane's Defence Weekly*, July 2, 1994, p. 5.

⁸⁸ "Old Rivals must Advance Carefully, Despite Accord," *Jane's Defence Weekly*, June 4, 1997, p. 16.

Naturally, the most debatable question for the NATO-Russia relations is the enlargement of the alliance. Russia has considered the enlargement as a "...confidence destroying instead of a confidence-building measure," and answered to it by delaying a number of arms control agreements.⁸⁹ After long debates, the way to NATO enlargement was opened by concluding the Founding Act on Mutual Relations in May 1997. The Act created a new institution — the NATO-Russia Permanent Joint Council — for the consultation between NATO and Russia, which was intended to give Russia a voice, but not a veto, in NATO affairs, and also established a Russian mission at the Alliance.⁹⁰ Though some people are skeptical about the deal, the agreement may open a new period in a continuing, but difficult relationship. Anyhow, the skepticism is real if we consider the vocal opposition in the Duma, or Russia's strong opposition to a possible enlargement of NATO with the Baltic states.

6. Possible Future Scenarios

Table 1 summarizes the results from the overview of the external stakeholders in Hungary's security. Analyzing the overall picture, four different scenarios could be identified as possible future developments in the region's security content.

The first, "an era of peaceful cooperation and development," is an optimistic one. Under this assumption, all of the countries obey the basic rules of international relations, and cooperate with each other. The nations have and exercise their inherited right for self-

⁸⁹ Ibid.

⁹⁰ "Historic Act in Detail," Jane's Defence Weekly, June 4, 1997, p. 3.

determination. States and different groups within states refrain from the use of force to settle their disputes. This outcome is based on the recognition by countries of their best interest for maintaining mutually advantageous cooperation on several fields. A well-established security cooperation built on confidence and a interdependence among nations is an essential requirement to achieve such a status. For that, nations have to change their behavior. For instance, Russia has to abandon its hegemonic aspiration and Serbs are to allow autonomy to Albanians in Kosovo. Though this notion is a highly optimistic and a highly improbable one at least in the short run, nation-states do not have a better alternative than to work for a stable peace that makes it possible to achieve prosperity and a high standard of living in the long run.

The second option is the "rolling down of a new iron curtain." This scenario assumes an extended Russian influence over several former Soviet republics, Slovakia, Romania, and Serbia. The Russian sphere of influence may also be over other territories and countries such as the Bosnian Serb Republic, Serb Krajina, and even Bulgaria. However, this option might be an unstable one. There is not a real community of interest nor a common binding ideology. Slovakia may become part of this system because it would not be criticized for its undemocratic practices. Romania would agree on cooperation for its feeling of abandonment by NATO which had not invited the country to join the alliance in the first round. Serbs and Bulgarians could join the arrangement based on some cultural and religious commonalities with Russia, and on the traditionally good relationship among them. As for the Ukraine, it would simply return under the auspices of its big brother. The structure would work similarly in times of bipolarity. The countries

included would maintain just few, if any, connections with the West. The result would be the establishment of a new iron curtain. However, this arrangement also has some positive features. The situation is similar to that of the cold war, and Russia hopefully would keep back the Serbs from further ethnic hostilities.

However seemingly unstable, the system may even prevail for a long run if it succeeds to provide some economic development for the parties. And, to achieve some kind of initial economic development is not so difficult if one remembers the poor economic conditions in these countries where the situation is so bad that there is no other way to get ahead.

The third option is a possible outbreak of hostilities between Albanians and Serbs in Kosovo. The civil war may then turn to an external conflict involving first Albania, afterwards Macedonia, Bulgaria, and even Greece. The Balkans, the source of several armed conflicts throughout history, would turn again into fire. The "Balkans on fire" option would not leave the West untouched either. Even one member of NATO, Greece, could be easily involved, too. Another undesirable result would be the massive flow of refugees toward western countries as happened during the war in Bosnia. The experience of the Bosnian war shows that such a conflict would affect Hungary, too. There would appear breaches of Hungary's sovereignty both on the land and in the air. The refugees would go through Hungary and some of them would acquire shelter from Hungary as well.

The fourth scenario, "in the name of Russian brethren," is the worst of all because it would involve large armies with probably large scale military operations. This case is

when Russia and Ukraine are engaged in a total war to restore Russian hegemony with a *casus belli* of mistreatment of Russian minorities in Ukraine. The effect would be similar to the Balkanian one: possible spill over of armored clashes, and huge number of war refugees heading toward the West through Hungary.

The second option, the “rolling down of a new iron curtain” has the highest probability to occur. It is not necessary that all of the countries mentioned above become members of the Russian-led family. For instance, Romania may resist the Russian expansion. On the other hand, there will certainly be countries prone for whatever reason to Russian subordination. Besides of its hegemonic attempts, Russia is keen to keep NATO away from its borders as far as possible.

One additional momentum is still important for Hungary. Even in the last two war cases, a large scale attack against Hungary is hardly imaginable. The diminishing threat of a total war against Hungary is due to NATO’s invitation of the country to join the alliance. Even if Romania, or Slovakia had an attack against Hungary on their minds, they probably would abandon that idea because in case of an armed invasion they would have to face the NATO military machine. The near presence of NATO is a sufficient containing force for the Ukraine, and Russia, too. This way, NATO would play the role of a stabilization force in the region improving..

Table 1 Selected External Stakeholders in Hungary's Security

| | Stakeholders | Internal Situation of the Stakeholder | International Relations of the Stakeholder | Importance to Hungary | Future Scenario |
|---|--------------|---|---|---|--|
| 1 | Slovakia | <p>Autocratic internal regime under Vladimir Meciar.</p> <p>Considerable economic successes but probable economic difficulties because of macroeconomic imbalances.</p> <p>Comparable by the size and capabilities armed forces to one that Hungary has.</p> <p>Ambiguous relationship to NATO and EU. Approaching to Russia.</p> | <p>The treaty on Good Neighborliness and Cooperation signed between Hungary and Slovakia but its implementation is clumsy on the Slovakian side.</p> <p>Issues of debate with Hungary:</p> <ul style="list-style-type: none"> - the dam over the Danube; - treatment of Hungarian minority. <p>The relationship between Hungary and Slovakia is cool.</p> | <p>Important because of Hungarian minorities, and in case of serious economic problems the mood of the general public can be diverted toward hostility against Hungary, and Hungarians.</p> | <p>1. Normalization of connections with Hungary.</p> <p>Development of good relations with the Transatlantic Community, and Russia.</p> <p>2. Stalemate or long-standing continuation of debates with Hungary.</p> <p>3. Forming a close alliance with Russia.</p> <p>Renewal of hostilities against the West, rolling down of a new iron curtain on the Hungarian border.</p> |

| | Stakeholders | Internal Situation of the Stakeholder | Internations Relations of the Stakeholder | Importance to Hungary | Future Scenario |
|---|--------------|---|---|--|---|
| 2 | Ukraine | <p>The new state is striving to find its own entity. Democratization process on the way. After the elections the anti-NATO, antimarket communists form the biggest party in the Parliament which can slow down the reform process.</p> <p>The economic situation is disappointing. Industry has to be restructured. Privatization is lagging.</p> <p>Large well-equipped army in a status of reorganization backed by a strong military industry.</p> | <p>Ukraine and Hungary have signed a treaty on good relationship and cooperation. The treatment of Hungarian minority is exemplary.</p> <p>Ukraine strives for independence from Russian influence by closing to other groups of countries (GUAM). The relationship with Russia is burdened with concerns for the large Russian minority.</p> <p>Ukraine has concluded a treaty on "Distinctive Partnership" with NATO. The positive development may be halted by the increasing communist influence.</p> | <p>Ukraine is very important for Hungary's security. Being a regional power, Ukraine has overwhelmingly bigger armed forces than Hungary, and such possesses the capability of a devastating strike against Hungary.</p> | <p>1. Continuing good relations with Hungary. Approaching the West, good cooperation with Russia.</p> <p>2. Approaching Russia under the influence of Ukrainian communists. Deteriorating connection with the West. Iron curtain on the Hungarian border.</p> <p>3. Hostility and war with Russia on the issue of Russian minorities as a result of Russia's hegemonic aspirations. It would mean the development of a new and more dangerous conflict than the Balkans both for Hungary and the entire Europe.</p> |

| | Stakeholders | Internal Situation of the Stakeholder | Internations of the Relations of the Stakeholder | Importance to Hungary | Future Scenario |
|---|--------------|---|--|---|---|
| 3 | Romania | <p>Romania has solid results in democratization. The political stability is threatened by discontent and activation of extreme forces. Disillusionment because of failing the first round of NATO enlargement.</p> <p>The economy is close to a crisis situation. Lagging privatization, lack of capital, and market knowledge hamper the situation.</p> <p>The military is larger and better equipped than the Hungarian Army. The armed forces are under reform. The military industry has good potentials.</p> | <p>Romania and Hungary have concluded a friendship treaty on borders and minority rights. The single source of frictions with Hungary can be the treatment of Hungarian minorities.</p> <p>Romania actively seeks accession to NATO and other European institutions. Active participant of PFP process and peace-keeping missions.</p> | <p>Romania is very important for Hungary because in an economic crisis the ethnic hostility can serve as a drain of public dissatisfaction. In a worst case scenario, the larger than the HDF Romanian Army may well prove to be an irresistible force for Hungary.</p> | <p>1. Further improvement of connections. Wide range of cooperation between Romania and Hungary. Romania approaches closer and closer to the West, and gets invitation in the second round of NATO enlargement.</p> <p>2. Deteriorating connections with Hungary due to severe economic problems. The ethnic hostility distracts attention from economic difficulties.</p> <p>3. An involuntary closing to Russia. The iron rolled down at the common border.</p> |

| | Stakeholders | Internal Situation of the Stakeholder | International Relations of the Stakeholder | Importance to Hungary | Future Scenario |
|---|-----------------------|---|---|---|--|
| 4 | Serbia and Montenegro | <p>Autocratic ruling subverts the democracy. The repression of the Albanian minority causes political instability. There are also tensions in connections between Serbia and Montenegro.</p> <p>The economy is in a deep after war crisis. No economic reforms have been implemented yet.</p> <p>The Yugoslavian National Army constitutes a similar asset to the Hungarian Defense Force but possesses considerable fighting experience.</p> | <p>Serbia and Montenegro is separated from the international communist with an "outer wall" after the suspension of economic embargoes.</p> <p>Serbia and Montenegro has good relations only with Russia.</p> <p>Serbs do not seem to abandon their aspiring for a "Great Serbia" what was the cause of the bloody Bosnian war.</p> | <p>Serbia and Montenegro is important for Hungary because of the Hungarian minority in Vojvodina. The fights of the previous war also spilled over to Hungarian territory.</p> <p>- possible armed incidents influencing Hungary.</p> | <p>1. Normalization of the internal situation in Serbia and Montenegro. Development of good connections with other countries, and approaching Western institutions.</p> <p>2. Development of good connections with Russia. Russia is capable to contain Serbia from further war fighting.</p> <p>3. Deepening of hostilities against Kosovar Albanians which results in a civil war. The war escalates to the neighboring Albania, Macedonia, Bulgaria, and even Greece. The entire Balkans are in flames.</p> |

| | Stakeholders | Internal Situation of the Stakeholder | International Relations of the Stakeholder | Importance to Hungary | Future Scenario |
|---|--------------|---|---|---|--|
| 5 | Russia | <p>Weak democratic institutions. Political instability accompanied by the strengthening influence of extreme forces.</p> <p>The economy is shaky. Industry has to be restructured, the social welfare system is to be reform, new tax regulations are needed. The economy needs capital investments.</p> <p>The Russian armed forces are in a deep crisis. The military is under modernization.</p> | <p>The Russian-Hungarian relationship is cooler than earlier. Russia opposes the NATO enlargement to the east. The Founding Act on Mutual Relations opened the way before enlargement and gave a framework for NATO-Russia cooperation.</p> <p>Russia seeks the revival of its influence over the former Soviet republic, and is also concerned in the fate of Russian nationalities living abroad.</p> <p>Russia has applied for membership at WTrO and has concluded a trade agreement with the EU.</p> | As a major European power, Russia is an important stakeholder in Hungary's and Europe's security. | <p>1. Development of mutually beneficial cooperation between Russia and the West. The West respects Russia's position, Russia abandons its hegemonic ambitions.</p> <p>2. Russia succeeds to restore its influence over the former Soviet republics, establishes alliance with Slovakia, Romania, and Serbia and Montenegro.</p> <p>3. Russia turns to military means seeing the divergence of Baltic states, and Ukraine from subordination to its will, and increasing influence of the West in CEE.</p> |

C. CHAPTER SUMMARY

The chapter has addressed two topics. First part was a description of the security perception on a global perspective. Analyzing the current development of security challenges, three facts seem relevant. First, the perception of security has obtained a broad interpretation. Besides the conventional political and military dimensions, economic stability, proliferation of weapons of mass destruction, ecological security, and other security factors have to be considered. Second, the termination of the Cold War diminished the menace of a large-scale military threat. Concerning this second development, the military side of security provisions has lost its significance. Third, security threats have shifted from a single country level to regional and global levels.

The second part has undertaken an analysis of Hungary's close security environment, picking up five countries for inquiry. The countries chosen represent Hungary's neighbors which have some disputes with Hungary, or constitute some kind of threat for the country. Russia and Ukraine have been chosen because they are relevant powers of the region with the capability to influence the development of events in the CEE region. The overall picture of the analysis points is that two issues are particularly threatening for the region. The ethnic disputes and hegemonic aspirations have already caused a bloody war on the Balkans. The recent developments are sharpening the conflict between Serbs and Albanians in Kosovo which easily can result in the revival of military clashes, and may even involve the neighboring countries. Russia, with its overemphasized concerns for Russian people in former Socialist republics, and its desire to regain its

influence constitutes another threat to the security of Europe. The other painstaking issue is economic difficulties shaking the countries in transition. The crisis is especially deep in Romania and the Ukraine. These two mutually reinforcing problems impede the process of democratization and pave the way for extremist forces.

The analysis also predicts four possible developments of international relations in the CEE region. The option of "peaceful co-operation and development," though unfeasible in a near future, have to be a common target for all players in the region. The "rolling dawn of a new iron curtain" seems to be a viable scenario. There is a possibility of military conflicts in two regions: Kosovo, and the territory of the former Soviet Union. The task of the organizations and countries involved in the European security structure is to prevent the emergence of new hostilities and ethnic conflicts as well as to direct the flow of events toward the optimistic.

III. SECURITY PROVISION AS A MULTIPLE PUBLIC GOOD

Once, security policy and international affairs were understood as terms embracing the same area of activities of the state and were called "high politics." While other spheres, like economic affairs, were thought to be inferior, or "low politics." The expansion of interstate interactions, the escalation of international trade and economic relations shifted the notion of low politics into the high realm. The globalization of the threat perception also makes it necessary to handle questions of security in a complex way.

In parallel with the development of international relations, scholars have introduced several theories for modeling the operations in the field of external affairs. Based on the realm of public goods, thinkers of the economic discipline have also developed a group of theories to analyze the effectiveness of alliances and to show the pattern of inter-alliance burden-sharing. The early economic theories have assumed restrictive assumptions which prevented an approach to its reality. Mark A. Boyer has suggested a theory of alliances — the "multiple product model" — which relaxes the previous simplifications. The current paper assumes Boyer's theory as a means for identifying a security policy portfolio for Hungary.

This chapter, based on Boyer's work, compares the two economic theories — public goods and joint product models — with the multiple model approach. The comparison extends to the assumptions of these models, to the interpretation of

optimality, and the free-riding hypothesis. Finally, there follows an introduction of means and the dimension of the multiple product model. The current thesis suggests including the area of external economic cooperation as a possible area of inquiry for the multiple product approach.

A. LOOKING FOR A COMPREHENSIVE THEORY

The theory of public goods is an adequate approach to explore defense alliances formed to achieve a common purpose. However, the initial public goods and the joint product model have accepted several simplifications: single product — military defense — approach, equality of costs of production across the alliance members, and the non-consultation assumptions. To relax these limitations, Boyer has suggested considering the alliances as producers of multiple security products, to take into account the production cost differences through comparative advantages, and to incorporate consultation into the model.

1. The Theory of Public Goods in International Relations

Nations, in pursuit of their own security objectives, often formed alliances or acted together in the past. Military cooperation in history rarely lasted longer than the end of the war that the alliances were established to combat. The history of NATO has been different. The organization had been established to contain the spread of communism and

to counterbalance the former Soviet Union and its allies. The goal to build up an adequate defense capability has been achieved through the collective actions of allied nations.

Another field of joint multinational actions is the cultivation of international trade regimes. Examples are abundant: the World Trade Organization (WtrO, earlier GATT), the European Union (EU, formerly Common Market), the North American Free Trade Agreement (NAFTA), the European Free Trade Area (EFTA), and the Council of Mutual Economic Assistance (CMEA, or COMECON). Here also, the trade regimes are maintained by permanent joint undertakings of different nations.

Besides joint actions of participating nations to produce the common defense or to facilitate free trade, the consumption of goods provided by collective defense arrangements or under international trade regimes has a collective character. In economic theories, provisions of this type are called public goods - independent of the fact that the goods or services are provided for citizens of a single country or for a group of states in an alliance. Public goods are *nonrivalrous* in consumption, and *nonexcludable* in use.⁹¹ A good is nonrivalrous in consumption if more than one person can enjoy the advantage of that good once provided. For example, the public lights on the streets can be used by everyone who goes along the street and the lights are turned on. Under non excludability, we understand that it is impossible or impractical to maintain exclusive control over the use of that good. For instance, nuclear deterrence, as established, serves the interest of all alliance members, and even those of the nonmembers. Nevertheless, the stability produced

⁹¹ Weimer, D.L. and Vinning, A.R. Policy Analysis, Prentice-Hall, Inc., 1992, p.42.

by nuclear deterrence is used by all nations despite their contribution or failure to contribute. Common defense and international trade provisions possess the features of public goods.

The cooperation of different nations is the center of focus of several theories. For example, integration theory, regime theory, hegemonic stability theory, and game theory all are models of provision of certain goods, private or public, through collective effort. However, Mark A. Boyer in his book argues that the public goods model is the best suited to describe international cooperation:

[P]ublic goods theory can accomplish all the tasks performed by other theories of cooperation. It also can provide a more comprehensive theoretical approach for the analysis of international cooperation than it provided by the other approaches.

Moreover, in contrast to all other approaches except possibly game theory in its more complex form, public goods theory facilitates direct evaluation of the success of the action taken by members of a collective in providing the goods in question. [...] The public goods approach lends itself directly to the evaluation of the inputs and outputs of security cooperation, in contrast to the other approaches, which are oriented more to the process of cooperation.⁹²

2. Restrictive Assumptions in Economic Models of Defense Alliances

The application of public goods theory to the model of alliances, first accomplished in 1966, was introduced by Mancur Olson, Jr. and Richard Zeckhauser in their paper *An Economic Theory of Alliances*. Analyzing this early work⁹³, Mark A. Boyer finds that

⁹² Boyer, M.A. International Cooperation and Public Goods, The Johns Hopkins University Press, 1993, p. 10.

⁹³ Boyer, M.A. International Cooperation and Public Goods, The Johns Hopkins University Press, 1993, pp. 14-20.

though the model is a verifiable description of the alliance behavior, is in harmony with empirical evidences and is supported by scholars, it assumes three overly restrictive assumptions.

First, the model focuses on a single, purely public good: military defense. In Olson and Zeckhauser's approach, two nations of an alliance determine their individual defense spending based on reaction functions, with each other defense provision serving as independent variables. While the reaction curves are derived from the use of the spill-in defense capability, which results in the collective provision and the non excludability of the defense public good. This approach neglects that nations pursue a wide range of policy tools in providing for their security.

Second, this original model assumes that the costs to provide the defense good are identical across nations. Rather, the costs of products are rarely equal. Costs may significantly differ across countries. The differences can be explained by different efficiencies of industries, different prices of labor, and so on. This simplification prevents taking into account the comparative advantages of countries in different fields and also contributes to distort the evaluation of the burdens borne by nations.

Third, the Olson-Zeckhauser's model disregards the consultation among alliance members. The assumption is that nations allocate their resources between defense and other goods in isolation. This approach of resource provision only provides for an optimal allocation of resources inside a single country through the utility maximization of that nation. Under conditions of an alliance, the optimality of production can be achieved just on a theoretical level. The alliance does not possess an efficient incentive system which

would provide for an optimal level of contribution by allies. On the other hand, the non consultation assumption contradicts the actual practice of the alliance. In case of NATO, member-states are in permanent negotiations with each other at the NATO headquarters in Brussels, and other forums of the Western alliance.

The next generation of scholars, Todd Sandler and his associates, have improved the model introducing the "joint product" approach, refining the pure public good assumption. The "joint product model" is based on the notion that the defense product supplied by the alliance yield both public benefits for the alliance as a whole, and private gains for individual nations. The approach is better understood if we consider the conventional means of war fighting. Conventional weapons can be used to a higher extent by the nation that deploys them than by other members of the alliance. Thus, the conventional weaponry possesses the character of excludability of private products to some extent. While, for instance, the nuclear deterrence can be perceived as purely public as far as the extension of the nuclear umbrella provided by the United States to one European nation yields the same level of deterrence for the other European allies, even though they do not incur extra expenses for that provision. Placing the weaponry and the deterrence and defense capability of the alliance, in a continuum ranging from purely private to purely public goods has helped to better describe the behavior of the alliance members, and to better understand the pattern of resource allocation in the alliance. However, the joint product model has also retained all the other restrictions of the earlier approach.

3. Assumptions of the Multiple Goods Model

In an effort to improve the early economic models of alliances, Mark A. Boyer has introduced the "multiple goods model" of international relations. Boyer's approach has retained the theory of public goods as an adequate means of inquiry for alliance cooperation. He has also suggested relaxing the three main limitations of the previous models. The single military good approach has been changed for a comprehensive assessment of security provisions. The single price assumption has been substituted with the comparative advantages in public goods trade. Finally, the decision making in isolation has been replaced by permanent consultation among members.

The history of NATO suggests that the Western Alliance has achieved several policy goals: provisions for an adequate military capacity, economic prosperity, providing foreign aid for third world countries and maintaining successful international monetary cooperation. However, the cited models take care only of the military dimension. The globalization and diversification of threats to security also require a comprehensive approach to the security policy of nations. Nations, of course, cultivate a wide variety of policy tools in providing for security. The multiple product model proposes to consider just this trend in order to get a better idea about the operation of the alliance and a broader picture on the burden-sharing pattern.

Different actions beyond the maintenance of a single military capability provide not only a private benefit for a single country but result in public gains for the whole alliance. For instance, the aid provided for developing countries not only helps maintain a good

image of the donor nation as a private benefit but promotes a pro-Western attitude and respect for democracy as a public gain for the entire alliance. Also, a country on the geographical edge of an alliance may obtain private gains from improving multidimensional relations with the neighboring nonmember countries while providing public good for the alliance through an enhanced stability and security of the region acquired by good international affairs. Therefore, the nonmilitary services, and provisions have to be also assessed among contributions to the alliance.

Nations trade with each other for two reasons: the differences in costs, and prices for the same goods; Nations may be short of certain goods which they can obtain through international trade. As a result, under liberal trade regimes, nations mutually adjust their production structures according to their relative advantages — comparative advantage — and make mutual profits from the trade. This concept is true not only for the private goods but in goods the public sector, too. Some kind of security good can be produced cheaper or with a higher efficiency by one nation than the other. Taking advantage of this possibility, nations may specialize on production of common goods they have advantage in, thus relieving resources for other purposes. This way, the trade with public goods, similarly to the private sector, increases the efficiency of security provisions, and improves the security of the alliance.

Alliances, in general, are formed on the basis of common interests and the free decision of members to join the alliance. This notion supposes that nations in an alliance cooperate for the sake of the common goal and consider the decisions of their allies in making their own decisions. For the consultation purposes, alliances establish permanent

frameworks for regular interactions which, in turn, develop an obligation to contribute and also provide a possibility of exercising pressure from the side of other members as non-contributors. Therefore, consultation has to be considered as a method of common planning and control of performance for the common purpose.

B. OPTIMALITY AND THE FREE-RIDING HYPOTHESIS OF DEFENSE ALLIANCES

Lacking adequate incentives, the public goods and joint product approaches have concluded that alliances operate on a suboptimal level. The evidences of the models have shown that some members — the free-riders — contribute less to the collective defense than the others. Boyer has argued that incorporating the public good trade into the model the alliance can get closer to an optimal level of production. The public good trade prevails due to comparative advantages, and can be realized through permanent consultation among alliance members.

1. Optimality of Defense Provisions

It is easier for a single nation to decide about the size of its own military force and find an optimal way of allocating its resources between defense and non-defense goods than in an alliance. In fact, there are no incentives in an alliance inducing a level of contribution by single nations which would provide optimal provision of the public good under the Olson and Zeckhauser public good model. As Olson and Zeckhauser point out:

[E]ach ally gets only a fraction of the benefits of any collective good that is provided, but each pays the full cost of any additional amounts of the collective good. This means that individual members of an alliance or international organization have an incentive to stop providing the public good before the Pareto-optimal output for the group has been provided.⁹⁴

The "joint product" model does not promise to solve the problem of optimality of the collective defense production either. The model has shown that the placement of weaponry on the continuum from public military deterrence to the highly private conventional defense capability influences the level of contribution by individual members. Evidences suggest that defense alliances with conventional equipment would perform closer to the optimal level than in the case of Olson and Zeckhauser's model, or in case of an alliance relying exclusively on nuclear deterrence.

While the multiple public goods model cannot either guarantee an optimal provision of public goods, it approaches closer to an optimal level of output, argues Boyer. This move toward optimality can be provided through alliance trade along the comparative advantage line. Permanent consultation among members offers the possibility to learn each other incentives, and recognize the field of comparative advantages of individual nations. During negotiations, members can volunteer or be pushed toward their fields of relative advantages, thus improving the performance of the entire alliance. After analyzing the results of different theories on international trade and cooperation, Mark Boyer concludes:

⁹⁴ Olson, M. And Zeckhauser, R., An Economic Theory of Alliances, RAND Corporation, RM-4297-ISA, 1966, p. 35.

[C]onsideration of multiple goods not only facilitates agreements but promotes specialization and moves the collective outcome closer to an optimal solution.⁹⁵

2. The Free-Riding Hypothesis

Already, Olson and Zeckhauser's work has introduced the notion of "free-riding" for the defense alliance context. They conclude that a nation which puts a higher value on the defense good will afford disproportionately more for the common purpose than others. To put it differently, the "free-riding" means disproportionality of burdens and benefits across the alliance.

The "joint product" model has also shown evidences for the "free-riding" phenomenon. In fact, Sandler and others have found five large alliance members — Canada, Italy, West Germany, United Kingdom, and France — undercontributing to the common defense.

Traditional studies on the "free-riding" assumption have compared the defense expenditures across countries as a percentage of the national income (GDP) or used the regression analysis of defense expenses incurred by allied nations. Katsuaki Terasawa and William Gates have taken a different approach. Comparing an isolationist policy to the collective provision, they have found the "free-riding" hypothesis misleading:

Alliance membership enables countries to simultaneously reduce defense expenditures and increase national security. In a voluntary defense alliance, no member can be worse off than in the isolation case. Conclusions that

⁹⁵ Boyer, M.A. International Cooperation and Public Goods, The Johns Hopkins University Press, 1993, p. 35.

some alliance members shoulder the burden of other members are inappropriate.⁹⁶

The multiple product model also offers a solution for the "free-riding" problem. It states that specialization of a country on the fields where comparative advantages prevail and negotiations among members not only increases the optimality of the defense provision but pushes toward a higher contribution of alliance members:

When free riding is identified in the alliance context, the analyst should examine other alliance contributions to discover the specialization of the apparent free rider. Free riding is less likely the norm and more likely an indication that specialization and trade of public goods is occurring.⁹⁷

C. DIMENSIONS OF THE MULTIPLE PUBLIC GOODS MODEL

The multiple product model assumes maintenance of several policy tools in security provision. The alliance cooperation also goes beyond the single military means embracing fields such as providing economic aid or international monetary cooperation. To exploit comparative advantages — political, and economic — allied nations may specialize on different fields of contribution. In addition to economic aid, and monetary cooperation, this paper suggests considering external economic cooperation as an area for allies to contribute. External economic cooperation is an important field both for

⁹⁶ Terasawa, K. and Gates, W., Alliance Burden Sharing: Equity is in the Eyes of the Beholder, p. 29.

⁹⁷ Boyer, M.A., International Cooperation and Public Goods, The Johns Hopkins University Press, 1993, p. 43.

individual — old, and to-be-members — countries and the alliance as a whole. Cultivating close economic affairs with nations outside the alliance helps to promote the security on the perimeter of the alliance, and offers a valuable dimension to contribute for the countries on the eastern edge of the Western alliance — primarily nations invited last summer to join NATO.

1. Military *versus* Nonmilitary Contribution in the Western Alliance

The traditional public good, and “joint product” models have measured the contribution of alliance members through a single military dimension. This approach has led to ambiguous results about the effectiveness of the alliance, and the equality of burden sharing among members. These theories have only extended to the military field, and have assessed neither the influence of comparative advantages, nor the benefits of specialization. Nor have the early theories paid attention to Article 2 of the Washington Treaty:

The Parties will contribute toward the further development of peaceful and friendly international relations by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well being. They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them.⁹⁸

⁹⁸ The North Atlantic Treaty, Washington, D.C., April 4, 1949, Article 2.

Analyzing the operation of the Western Alliance, Mark Boyer has found ample evidence for specialization. After an examination of foreign aid donation, international monetary cooperation, and other fields of contribution, he has come to the conclusion that individual nations may bear a larger burden on one or two areas but are free riders on other fields. The multi product model has shown a more even distribution of burdens than the early theories.

Recently, the changed security environment and the globalization of threat perception also calls for a multidimensional security provision, and a comprehensive evaluation schema of members' contribution in an alliance. NATO, too, has recognized the need for an altered approach to security:

But what is new is that, with the radical changes in the security situation, the opportunities for achieving Alliance objectives through political means are greater than ever before. It is now possible to draw all the consequences from the fact that security and stability have political, economic, social, and environmental elements as well as the indispensable defence dimension. Managing the diversity of challenges facing the Alliance requires a broad approach to security.⁹⁹

This statement underlines again the necessity for harmonization of the measurement and variety of contributions. As Boyer puts it:

[E]xpenditure categories other than military are considered important by the allies and, therefore, should be included in any evaluation of Western alliance burden sharing.¹⁰⁰

⁹⁹ The Alliance's New Strategic Concept, Rome, November 7-8, 1991, paragraph 24.

¹⁰⁰ Boyer, M.A. International Cooperation and Public Goods, The Johns Hopkins University Press, 1993, p. 31.

2. Public Good Trade and Comparative Advantages

After recognizing the necessity of a multidimensional approach to the evaluation of contribution to the common purpose, the next step is the introduction of ways how the collective arrangement can take place. The way to the common purpose lays through trade among allied nations. The basis for the trade is the comparative advantages known since David Ricardo introduced his theory of international trade. In case of the public good trade, political comparative advantages should also be considered in addition to the traditional economic ones.

Contributions to a defense alliance are determined in a "two-level game." The tasks are determined and shared at several forums of the alliance. While assuming alliance obligations, politicians should take into account the preferences of their constituencies, too. Essentially, there are no fully identical approaches to security in different countries. Consequently, the differences in the mix of policy instruments of a country create political advantages in line with the domestic preferences of nations. On the other hand, the domestic policy agenda does not offer a wide range of actions for the decision makers. To act entirely against the will of their supporters would equal a political suicide for politicians.

Examples can better demonstrate the notion of political advantages. For instance, if a country like the United States prefers to maintain modern capable military force, it would allocate more financial resources for defense spending. Whereas another country, such as Canada, may prefer to take part in peacekeeping missions, it will compose, train, and deploy special troops for promoting security in crisis areas. To step beyond the

military means, one can consider the case of Japan. Japan cultivates a wide range of policy tools for providing security. Defense spending in Japan is low — about 1% or lower of its GDP — in comparison to several countries, while Japan devotes considerable resources for economic aid, and trade promotion purposes. Thus, Japan probably has political advantage in promoting security through establishing trade interdependencies, and spreading the notion of democracy.

Economic comparative advantages are understood in a traditional sense for the public good trade. Countries have different endowments of resources, such as labor, capital, technologies determining the costs and efficiency of production. These differences also influence the decisions of member states about their contribution to the alliance. For instance, a country may specialize in the production of a certain kind of weapon and supply it for the whole alliance cheaper than anyone else due to technological advantage and economies of scale. Another nation may choose some labor intensive service or activity for specialization because of a low domestic cost of labor.

In the case of public goods, the trade usually takes place by involving money. The mechanisms for the public good trade are consultations. Negotiations can take place regularly among alliance members. During consultations, the partners learn each other preferences, comparative advantages and may come to a mutually advantageous solution. Frequent consultations teach decision makers about the value of cooperation in pursuing multidimensional security.

3. Economic Cooperation as a Means of Promoting Security and Stability

The analysis conducted in Chapter II shows that all of the five CEE countries face serious economic difficulties. The deepening of the economic crisis may result in internal unrest, growing political instability, and may even threaten the existence of nation states. Another worrisome outcome of economic problems can be the strengthening of nationalistic voices, and the blaming of national minorities or neighboring countries for difficulties. All of these outcomes suggest an increased probability of a worst case scenario — continued internal conflicts and civil wars, the reemergence of the “iron curtain”; and the worst of all, the rise of interstate hostilities or external wars with the involvement of Russia (see Table 1).

The most effective ways to address the economic problems are an intensive international trade, economic cooperation for reorganization of obsolete industry structure, capital investment, establishment of joint ventures, providing assistance in reform of health care systems, and so on. Establishing a dense net of economic connections leads to external interdependencies which in turn reduce the perceived threat among nations, promotes confidence building, stabilizes the security environment, prevents the rolling down of a new iron curtain. Therefore, Sperling and Kirchner are right to state:

The most effective instruments in the diplomatic toolbox of the Western democracies are economic and financial: the extension of free trade agreements, a stable and calculable macroeconomic environment, financial

aid and technical assistance to ease the transition to the market economy, and financial support to redress the environmental degradation and ease the debt inherited from fifty years of economic mismanagement.¹⁰¹

The newcomers to NATO — the Czech Republic, Hungary, and Poland — have historical advantages on the economic field to engage the countries of CEE in economic cooperation. The invited nations have had developed economic and trade connections with other socialist countries during the CMEA — Council of Mutual Economic Assistance — period. These three countries are also aware of the market in the CEE region, and possess considerable practices in the field. The knowledge of Russian language also makes easier any type of cooperation with countries of the region.

On the other hand, the promotion of economic relations not only contributes to the economic recovery of the states outside NATO. It also reinforces the results of economic transformation in the three to-be-members countries. These countries can serve as “bridges,” and be active participants in this process. In turn, two results could be achieved. First, using their comparative advantages the new members of the Western club may choose the economic field for their contribution in the West’s security portfolio. Second, the economic development reached due to reestablished economic relations would provide the means for their alliance contribution on other fields of collective provisions.

¹⁰¹ Sperling, J. and Kirchner, E., Recasting the European Order, Manchester University Press, 1997, p. 10.

D. CHAPTER SUMMARY

Table 2 summarizes the differences of three economic models of alliances. The table shows that the multiple product model addresses the limitations of the previous approaches. Therefore, the multiple product model is well suited to analyze the operation of a defense alliance, and to measure the contribution of different nations.

The comprehensive approach taken by the multiple product model is in harmony with the globalization of threat perception, and habit of nations to provide for security through multiple channels. Evaluating members' contribution to the common security on several fields offers a broader picture on the burden sharing pattern. The comprehensive measurement also shows nations rarely take a free rider course on the expense of the others.

Incorporating comparative advantages into the alliance model provides for trade with public goods and a more conscious division of tasks inside the alliance. The mechanisms for the trade are consultations, a common practice in the Western alliance. The trade and utilization of comparative advantages push the alliance closer to an optimal provision for security.

The suggestion to extend the model into the external economic cooperation mirrors the diminishing role of military means of security provision. On the other hand, improved economic relations with countries of the CEE region yield two advantages for the alliance. First, it promotes the security in the region through establishment of mutual interdependence, and spread of democratic values to the eastern countries. Second, international trade and developed economic relations strengthen the economic

achievement of the countries invited to join NATO, thus making for them easier to modernize their military forces, and to contribute to the alliance defense capability.

Table 2 Features of Defense Models

| | Olson and Zeckhauser's Public Good model | Sandler's Joint Product Model | Boyer's Multiple Product Model |
|-------------------------|--|---|---|
| The product | Pure public: military defense | Impure public: nuclear deterrence and conventional defense | Portfolio of security policy tools |
| Cost of production | Equal across the alliance | Equal across the alliance | Different in different countries. Allows international trade due to comparative advantages. |
| Decision making process | Decisions are made in isolation. | Decisions are made in isolation. | Decisions are made collectively through consultations. |
| Optimality | The production is suboptimal. | In case of conventional defense the production approaches optimality. | The production is close to optimal. |
| Free riding hypothesis | Free riding is a form of behavior. | Free riding is a form of behavior. | Free riding is indication of specialization and trade. |

IV. HUNGARY IN NATO

In any alliance, the credibility of members' commitment and contribution to the alliance are crucial. The commitment shows the credibility of intention to contribute. Under contribution, we understand the actions and other provisions of members for achieving the common goal. This chapter undertakes to demonstrate Hungary's commitment to NATO and proposes a portfolio of security provisions for Hungary to contribute to the common purpose.

A. COMMITMENT TO THE ALLIANCE

The commitment of Hungary to NATO should be considered valid for two reasons. First, Hungary had several alternatives to provide for her own security. However, the country found membership in NATO as the most effective way to provide for her security. Recognition of the necessity for Hungary to become a member of NATO is a real incentive ensuring a high probability of future contributions.

Second and most important, both the general public, and the political parties voted in favor of Hungary's NATO membership. The vote cast on July 15, 1997 in Parliament resulted in a unanimous "YES" for membership.¹⁰² The binding referendum of November 16, 1997 showed that the general public entirely favored the joining the Alliance. The high level of support — more than 85% of votes cast — authorized politicians to assume obligations in NATO.

¹⁰² "Unanimous Parliamentary YES for NATO," The Hungarian Observer, July 1997, p. 10.

1. Hungary's Way to NATO

The end of bipolarity significantly changed the power structure in Europe. The newly democratized countries found themselves in a "gray area." Hungary, too, had to find a new solution to provide for her own security without Soviet supervision. Since 1989, the country has been actively seeking an adequate solution for security and stability. Before and in parallel with application for NATO membership, Hungary faced different and at least theoretically existing security alternatives.

The following section will make assumptions about the possible development of the European power structure. Then, alternative security approaches that Hungary could follow will be discussed. The neutrality option and the alternative of bandwagoning with Russia should be considered as single sided solutions to address the security question as far as these two options offer a solution to face only military threats. On the other hand, collective provisions, particularly the membership in NATO, are preferred by Hungary as approaches to its security.

During the period prior to the invitation by NATO, Hungary learned more about the advantages of belonging to the Western alliance. This recognition served as an initiative for Hungary to commit itself to the organization and to deliver contributions under her capabilities.

a. The European Security Complex

According to Håkan Wiberg's point of view: "During the past three centuries Europe has formed a security complex of its own."¹⁰³

A security complex is a group of states with strongly linked security issues. A country can rarely achieve such a level of isolation that is not affected by or it does not affect the security of others. Several security complexes could be identified all over the world. The linkage is tighter inside the group and weaker with outsider countries while the groups also are linked with each other. In the case of Hungary, it is acceptable to consider just the European complex as far as the country is situated in Central Europe, and because of its small size cannot influence distant countries. On the other hand, Hungary is mainly affected by its neighbors and powers situated in the European complex.

In the nine years since the collapse of the socialist system and the end of the Cold War, the future of a European security arrangement is still uncertain. There are three emergent scenarios for power arrangement in Europe depending mainly on the international engagement of the United States and internal development in Russian. The first option, based on Russia's economic recovery, is the emergence of a strong Russia with hegemonist ambitions:

The hidden agenda of the Russian leaders, however, is their wish to restore the country's hegemonic position, at least on a regional basis, and to regain

¹⁰³ Wiberg H. "Security Problems of Small Nations," in the Small States and Security Challenge in the New Europe, ed. by Bauwens W., Clesse A., and Knudsen O. F., Brassey's, 1996, p. 33.

control of territories and other natural and man-made resources that they lost in the late 1980s and early 1990s.¹⁰⁴

Assuming the United States retains its interest in Europe and remains engaged in European security matters similarly to the Second World War period, there could be perceived a reemergence of a new bipolarity and appearance of a new dividing line in Europe. The situation is widely accepted by both sides. The question for the new democracies in Central Europe would be on what side of the dividing line they are on. After forty plus years under a Soviet influence, Hungary and the other ex-socialist countries in Eastern Europe are keen to belong to the West.

A second possible power arrangement could be the formation of a multipolar Europe. In this scenario, the United States pursues the policy of isolation. In Europe there are a few local powers, for example, Germany, France, and Russia. Under this arrangement, the balance of power is unstable and will start a competition for leadership in the region. Therefore, this scenario contains the highest uncertainty and is the most dangerous for small states like Hungary.

The third case is the emergence of a single Western European pole formed around the European Union. In this situation the United States can be in isolation or in cooperation with the European region. Russia, weak to challenge the strong Western pole, then can be immersed in its economic and internal troubles or drawn into the single

¹⁰⁴ Sheffer G., "The Security of Small Ethnic States: A Counter Neo-Realist Argument," in The National Security of Small States in a Changing World, ed. by Inbar E., and Sheffer G., Frank Cass & Co. LTD, 1997, p. 28.

European pole. This arrangement would offer a close connection with the European pole for the new democracies and also would provide a secure international environment.

Not one of these three scenarios could be seen as totally certain even in 1998. However, events seem to develop toward a strong Western Europe cooperating with the United States. Russia faces serious domestic difficulties while strives to gain back its influence at least in its closest neighbors. The situation was even more uncertain at the beginning of the 1990s when Hungary was looking for new security provisions.

b. The Neutrality Option

The Hungarians have maintained some nostalgia for a neutral status since the revolutionary attempt for democratization in October 1956. Neutrality, as a security option, was often mentioned at the time of the collapse of the socialist system. It was perceived as a preferable arrangement to the membership in the Warsaw Pact where military organs continued to exist until April 1991:

And lots of voters want Hungary to be like Austria. Avantgardists in Moscow do not balk at the idea of Hungarian neutrality: Hungary has no great strategic importance, and Russia might even benefit from having another Austria or another Finland as a neighbor.¹⁰⁵

However, by the end of 1991 Hungary realized that the neutrality was an unrealistic option.¹⁰⁶ Neutrality could be an adequate solution in a new bipolarity situation

¹⁰⁵ "Comrade Crackdown," The Economist, October 28, 1989, p. 15 (U.K. Edition p.13).

¹⁰⁶ Some realistically thinking diplomats and politicians never saw the neutrality as a viable option.

with guarantees of status quo by the superpowers. Neutrality for Hungary is also unfeasible because of her geographic situation, her economic troubles, and the possibility for emergence of the security dilemma around the country. Neutrality is a very expensive way to gain security. To maintain the credibility of neutrality, the country has to preserve a large and strong army. Hungary has inherited obsolete armed forces from the socialist era. To modernize that army and maintain it for preserving a neutral status would overwhelm the country's financial capabilities. The Hungarian President expressed it evaluating the membership on NATO:

The cost of remaining neutral would have been more than that of joining NATO, said Hungarian President Árpád Göncz. He said neutrality was financially not an option for Hungary and described NATO as an "ideal" alliance.¹⁰⁷

Neutrality could trigger the security dilemma. Foundation and maintenance of a strong army might well prompt a feeling of threats in neighboring countries. They would probably respond with an increase of their own military capabilities. The overall result would be an increasing level of insecurity, fear, and a high level of tensions within the region. Remember, the pockets of Hungarian minorities in neighboring countries make this a realistic scenario. Neighbors could evaluate Hungary's military build up as preparation to gain back territories lost after World War I.

¹⁰⁷ "NATO Cheaper for Hungary," In Brief, Jane's Defense Weekly, August 27, 1997, p. 12.

c. Bandwagoning with Russia

Bandwagoning is a type of behavior of mainly small countries to ally with the close regional hegemon to avoid its threat. In this century, Hungary alternated between two powers: Germany and Russia. Germany is now under control in NATO and the European Union. Its behavior does not indicate Germany's attempt at hegemony in Europe. Yet, the bandwagoning with Russia still remains as a theoretical option. Hungary's choice to ally with Russia is a function of Russia's relative power and the quality of connections with and guarantees from the side of Western Europe and the United States. However theoretical, Hungary's bandwagoning with Russia could not be left out of consideration. Allen Sens pointed out:

Balancing or bandwagoning behavior may take place in Central Europe and the Balkans. In the absence of any overarching security arrangements, such as membership in NATO, small states in Central Europe and the former Soviet Union may bandwagon to great powers or balance against perceived threats as a response to their security concerns.¹⁰⁸

Hungary's bandwagoning with Russia would be an option under bipolarity and even more in a multipolar Europe. This case could happen only if the western powers would leave Hungary to her own fate. On the other hand, Hungary would not unilaterally conclude such an arrangement with Russia again on her own intentions. A similar step would be strongly opposed by the general public. Hungary has always maintained a feeling

¹⁰⁸ Sens, A. "Small States Security in Europe," in the Small States and Security Challenge in the New Europe, ed. by Bauwens W., Clesse A., and Knudsen O. F., Brassey's, 1996, p. 88.

of belonging to the western part of Europe. Nevertheless, even if a new military alliance with Russia was highly undesirable for Hungary, it could not be ruled out until the North Atlantic countries showed certain commitment toward the new Central and East European democracies.

d. Collective Approaches

As far as the above-mentioned two options providing for only military defense turned out to be unfeasible or undesirable, there remains the possibility to provide for security on a cooperative level. The cooperative approach to security can meet the challenges under all of the three scenarios of the European power arrangement. The choices for Hungary and her Central European partners were to form a Central European Concert among countries of the former socialist system situated in Central Europe or to apply for membership in the Transatlantic organizations.

(1) A Central European Concert. The Central European countries have seen the joining of the Transatlantic organizations, namely the European Union (EU), and West European Union (WEU) as the primary way to ensure the security of their countries both economically and militarily. However, for accession into these organizations, a period of preparation was needed on both sides. First, the former socialist countries needed to make necessary changes in their political, economic, and other structures. The applicant countries also needed to meet certain criteria before accession.

On the other hand, the Transatlantic institutions also needed some time for their own development and transformation.

By the end of 1991, it became clear that joining the European Union (EU) and thus the Western European Union (WEU) will take a much longer time than the Central and Eastern European countries could accept. This was the moment when the new democracies put a higher priority to the NATO membership than to the accession to EU.

Meanwhile, the Central European countries started their own cooperation on several fronts. The goal was to unite their efforts instead of competition for membership in Western institutions. One example of this cooperation is the Visegrád treaty signed first by Poland, Czechoslovakia, and Hungary. Uke Nerlich, a deputy director of Germany's Research Institute for International Politics and Security, suggested extending the cooperation to the military field, too:

[T]he former Warsaw Pact members should pool their forces by creating their own military alliance, which would work out security arrangement with both NATO and Russia.¹⁰⁹

However, the broadening of cooperation to the military field could not happen for two reasons. First, there was a Russian, that time still Soviet, opposition to this step since the beginning of the cooperation among the Central European countries:

[S]enior Soviet spokesmen expressed tolerance for new Central European regional groupings on political, economic, and ecological issues, but were

¹⁰⁹ Nelan, B. W., "Should NATO Move East?," Time, November 15, 1993, U.S. Edition, p. 68.

uniformly critical of any new associations dealing with military security that did not include the USSR.¹¹⁰

The second issue was that the Central Europeans did not really want to extend their cooperation because of the fear of rejection from their membership in a Western defense organization, saying that the central European countries have found a proper solution for their security. In this case, West would not have to offer membership in NATO, and other Euro-Atlantic organizations just simple cooperation with the central European arrangement.

(2) NATO Membership. By 1994, the membership in NATO remained the only acceptable option for the new Eastern European democracies to provide for their security. This option also seemed to be attainable. NATO offered cooperation for these countries in different fields and in different frameworks. Additionally, NATO could provide more than pure military security:

The reasons for NATO's primacy in Europe are threefold. First, it has effective command and control structure and adequate military resources. Second, it helps to keep United States in Europe by providing a political framework through which it can legitimately exercise power on the continent. Third, NATO serves several military, political, and economic objectives.¹¹¹

¹¹⁰ Sharp J. M. O. "Security Options for Central Europe," in The Future of European Security, ed. by Crawford B., Regents of the University of California, 1992, p.. 61.

¹¹¹ Väyrynen R., "Small States: Persisting Despite Doubts," in The National Security of Small States in a Changing World, ed. by Inbar E., and Sheffer G., Frank Cass & Co. LTD, 1997, p. 61.

However, NATO membership is not perceived in Hungary as the final provision for security. The Deputy State Secretary of Defense for Integration, István Gyarmati expressed:

We feel the security of the country can only be ensured if we join the European Union and NATO. The main reason is not a military threat we see emerging on our borders; it is much broader than that. We think that Hungarian national defense can be provided at a much lower cost and that security and stability in the region can be better ensured if it is provided in a co-operative manner.¹¹²

Finally in July 1997, Hungary's membership in NATO became a close reality with the invitation by the Alliance at its Madrid Summit. By that time, Hungary realized that the most advantageous and cheapest provision for security is NATO membership. This recognition strengthens Hungary's commitment to the Alliance and provides for a more predictable the contribution to the collective defense.

2. Internal Stakeholders in Hungary's Security Policy

Additional evidence of Hungary's commitment to NATO is the devotion of its domestic stakeholders in Hungary's security and foreign policy. All of the internal players show high commitment to the Alliance.

Table 3 summarizes the expectations and aims of the general public and political parties represented in Parliament. The table also contains the signs of commitment taken by domestic stakeholders to NATO. The political parties cited in the table are those which

¹¹² Buntin, K. "Hungary: in Search of a Secure Future," Jane's Defence Weekly, June 16, 1997, pg. 21.

have acquired seats in Parliament at the last general elections in May 1998. The current distribution of seats is introduced by Table 5 in the Appendix.

Table 3 Domestic Stakeholders in Hungary's Security Policy

| | Stakeholder | Expectations/Political Aims | Importance | Commitment to NATO |
|---|--|---|---|---|
| 1. | General Public | <p>The primary concern of Hungarian people is the economic prosperity of the country, and the success of individual citizens.</p> <p>The results of NATO referendum witnesses the general public's devotion to the North Atlantic Alliance.</p> <p>The collective mind feels responsibility for Hungarians living in neighboring countries.</p> | The most important. | The general public showed its commitment to NATO by voting in favor for membership at a bidding referendum for the membership in the organization. |
| Political Parties in Parliament: | | | | |
| 2. | Federation of Young Democrats (FiDeSz) | <p>Economic policy:</p> <ul style="list-style-type: none"> - "Program of Individual Civil Growth"; - insure welfare of citizens based on steady economic growth-7% yearly; - joining the EU for economic convergence; - encourage foreign capital investment; - establish new work places; - bring down inflation. <p>Military policy:</p> <ul style="list-style-type: none"> - support membership in NATO; - form a modern, cheaper, and capable military force. <p>Foreign relations:</p> <ul style="list-style-type: none"> - support Hungarian minorities in the Carpathian basin; | As the leading parliamentary party is very important in Hungary's security policy. | <p>By voting in favor for NATO membership, and supporting Hungary's application for the accession, the FiDeSz credibly committed itself to the alliance.</p> <p>The success of the party's economic program needs the western assistance which also increases the probability of contributions to NATO.</p> |

| | Stakeholder | Expectations/Political Aims | Importance | Commitment to NATO |
|----|----------------------------------|---|---|---|
| | | <ul style="list-style-type: none"> - encourage economic relations with neighboring countries that provides a possibility for an economic break through for Hungary. | | |
| 3. | Hungarian Socialist Party (MSzP) | <p>Economy:</p> <ul style="list-style-type: none"> - economic growth-4-5% yearly-based on innovation; - achieve the Maastricht criteria of EMU; - development of physical and human infrastructure; - sustain economic competitiveness; - lowering backwardness of domestic regions; - establish new work places; - decrease inflation. <p>Military policy:</p> <ul style="list-style-type: none"> - provide for security based on NATO membership; - modernization of armed forces to meet the NATO requirements. <p>Foreign policy:</p> <ul style="list-style-type: none"> - gain EU membership; - active participation in regional organizations; - pursue a good neighborhood policy; - looking for agreements through negotiations. | As the biggest opposition party has an important role. | Based on its previous policy, it is clear that the MSzP will be a supporter of NATO, and all security provisions to contribute to the alliance. |

| | Stakeholder | Expectations/Political Aims | Importance | Commitment to NATO |
|----|--|--|--|---|
| 4. | Independent Smallholder Party (FKgP) | <p>Economic policy:</p> <ul style="list-style-type: none"> - an "Alternative Economic Program"; - sustain perceptible and steady economic growth; - decrease unemployment; - effective anti-inflation measures-through a decreased taxation level; - increase internal consumption; - improvement of export exchange ratio; - development of countryside. <p>Military policy:</p> <ul style="list-style-type: none"> - entanglement in NATO's military structure; - maintain capable military forces. <p>Foreign policy:</p> <ul style="list-style-type: none"> - joining the EU-a strategic aim; - fully exploiting the rights and privileges of NATO membership; - promoting security of the CEE region; - representing interests of the Hungarian minorities abroad. | The FiDeSz needs the FKgP-s cooperation as member of the government, so it can be an important force. | The FKgP voted in favor of NATO membership. It also recognized that the western alliance is the best way to provide for Hungary's security. |
| 5. | Alliance of Free Democrats (SzDSz) | <p>Economic policy:</p> <ul style="list-style-type: none"> - maintain sustainable economic growth; - decrease inflation; - encourage foreign investment; - continue structural reorganization of the economy; - encourage entrepreneurship. <p>Military policy:</p> <ul style="list-style-type: none"> - comprehensive military reform: human | Represents a small force in Parliament, not really important . | The SzDSz favors a comprehensive approach to security with a primary role of NATO in it. |

| | Stakeholder | Expectations/Political Aims | Importance | Commitment to NATO |
|----|----------------------------------|--|---|--|
| | | <p>sphere, NATO interoperability and compatibility, quality improvement of the new structure, technical modernization;</p> <ul style="list-style-type: none"> - further decrease in personnel; - improvement of command and control system; - Improvement of civil control. <p>Foreign policy:</p> <ul style="list-style-type: none"> - strategic aim: joining EU and NATO; - promote cooperation with neighbors based on the bilateral friendship treaties; - foster economic relations with neighbors; - support the Euro-Atlantic integration of neighboring countries; - maintain good relations with Hungarian minorities in neighboring countries. | | |
| 6. | Hungarian Democratic Forum (MDF) | <p>Economic policy:</p> <ul style="list-style-type: none"> - ensure sustainable, increasing economic growth through structural modernization; - encourage foreign capital investment; - primacy of exports in economic growth; - anti-inflation measures; - joining the EU. <p>Military policy:</p> <ul style="list-style-type: none"> - maintaining defense capability; - strengthening civilian control, - increase defense budget to 2% of GDP; - joining NATO according to Hungary's national interests; - development of the HDF focusing on | Represents a small force in Parliament, not really important | While being the governing party at the beginning of 1990s, the MDF started to pursue the accession to Atlantic institutions. It makes credible the party's commitment to the Alliance. |

| | Stakeholder | Expectations/Political Aims | Importance | Commitment to NATO |
|----|---------------------------------------|--|---|--|
| | | <p>command and control system, quick reaction forces, Air Force, and airspace control.</p> <p>Foreign policy:</p> <ul style="list-style-type: none"> - promotion of the national interest including interests of Hungarians abroad; - continuing of Euro-Atlantic integration (NATO, EU membership); - development of economic diplomacy; - supporting autonomy aspirations of minorities. | | |
| 7. | Hungarian Truth and Life Party (MIEP) | <p>Program of the "The Nation Builder State"</p> <p>Economic policy:</p> <ul style="list-style-type: none"> - economic growth based on reviving of domestic consumption, and revaluing of Hungarian labor; - income redistribution through conventional and exceptional taxation. <p>Military policy:</p> <ul style="list-style-type: none"> - Hungary must not join the NATO's military organization; - national interests require to have military forces capable to defend the Hungarian land. <p>Foreign Policy:</p> <ul style="list-style-type: none"> - Hungary should revise several international treaties: Associate | <p>Being the smallest party in the Parliament in not really important.</p> | <p>The MIEP is the only party opposing Hungary's integration to NATO's military organizations. In case of economic troubles, the party may blame the high defense spending for the problems.</p> <p>However, to improve the nation's self esteem, the MIEP will support the modernization of armed forces.</p> |

| | Stakeholder | Expectations/Political Aims | Importance | Commitment to NATO |
|--|-------------|--|------------|--------------------|
| | | <p>Membership Treaty with the EU, GATT, treaty signed with IMF;</p> <p>- negotiations with EU should be placed on new bases.</p> | | |

a. General Public

As the domestic component of the "two-level game," the public opinion is a very important factor in Hungary's contribution to NATO. The domestic political agenda, and the expectations of the general public determine the freedom of movement for politicians in the international arena and taking obligations in NATO.

Although the Alliance did not require it, the Hungarian governing parties considered it important to call a binding referendum about the country's membership in NATO. The previous opinion polls did not show a convincing ascendancy of supporters over those who did not favor the Alliance. Researchers found that hesitant people did not possess general knowledge about the Alliance.

The referendum was organized on November 16, 1998. The results were persuasive. More than 85% of those voting answered "yes" to the question, "Do you want Hungary to ensure its safety by joining NATO?" Laszlo Kovacs, the foreign minister of Hungary, said:

The turnout of about 50% is a message to the NATO Headquarters and the member states: it suggests that NATO membership is a national issue, not only that of the political elite, in Hungary.¹¹³

The result of the referendum allows politicians to allocate more resources for defense purposes. On the other hand, Hungarians will hardly accept the heavy financial burdens following NATO membership:

¹¹³ *NATO Referendum*, MTI (Hungarian News Agency), *Econews*, November 16, 1997.

Most Hungarians welcome the prospect of NATO membership as a symbolic step toward full western integration. Yet opinion polls show Hungarians are generally reluctant to channel more money toward defense, especially at the expense of social and welfare programs.¹¹⁴

In order to sustain public support, politicians have two tasks to accomplish. First, they have to keep the population informed. People should know both sides of the alliance equation: costs and benefits of the membership and the current task and challenges. Second, politicians have to be aware of the public opinion and people's preferences. Knowledge of the general public's expectations and preferences help decision makers identify political comparative advantages and compose a proper portfolio of security provisions that meet the support of the population.

b. Federation of Young Democrats (FiDeSz)

The Federation of Young Democrats¹¹⁵ won the parliamentary elections after two rounds on May 10 and 24, 1998. Therefore, this party will get the authorization from the President to form the new government. Being at power, the FiDeSz will control the Hungarian security policy in the near future, and its political aims will determine the NATO contribution and foreign policy of the country.

¹¹⁴ "Leaders Remain Quiet on the Cost of Entry," *Jane's Defense Weekly*, July 16, 1997, p. 24.

¹¹⁵ The main points of FiDeSz's policy can be found in its party program, <http://www.fidesz.hu>, May 1998.

FiDeSz is concentrating its force on the economic development of Hungary. Their main goal is to maintain a steady 7% per year economic growth based on internal resources, foreign capital investment, and external support from the European Union.

The security policy of FiDeSz is based on three pillars. The party has seen NATO as an organization ensuring peace and security in Europe. The second pillar is the maintenance of good relations with neighboring countries. Regarding this aspect, the FiDeSz is going to support the Hungarian minorities living in the Carpathian basin and the third element of its security policy is the maintenance of a smaller but more efficient military force capable of cooperation with NATO. The modernization of the Hungarian Defense Force (HDF) should be financed from a rising share of the defense budget in a growing national income (GDP).

The FiDeSz has always supported Hungary's application and accession to NATO. The realization of its economic policy depends on the cooperation with the West and economic relationships with neighboring countries. Therefore, the FiDeSz is going to maintain good relations both with the West and the countries of the close environment. These circumstances direct the FiDeSz toward fulfilling all the requirements of NATO membership, and furthering the stability of the CEE region.

c. Hungarian Socialist Party (MSzP)

The Hungarian Socialist Party¹¹⁶ as the largest opposition group in the new Parliament that will influence the activity of the government and would like to continue the security policy maintained while it was in power during the previous term. The main targets of this policy have been gaining full membership in NATO and European Union (EU), promoting the security of the CEE region and maintaining good relations with Ukraine and Russia. The primary means of MSZP's security policy have been mutually advantageous agreements reached through negotiations.

The old Hungarian government headed by the MSZP was the negotiator of the NATO accession agreement. The delegation has ensured the NATO partners about Hungary's commitment to contribute to the common purpose. As a last resort of security, the MSZP supports the modernization of the HDF in order to achieve compatibility with NATO forces.

d. Independent Smallholder Party (FKgP)

The FiDeSz, besides the Hungarian Democratic Forum, needs the FKgP's cooperation for stable governance in the next four years. Therefore, the FKgP has sufficient leverage in the work of this new government. The FKgP has always favored NATO membership, so its support for an adequate contribution to the Alliance is probably

¹¹⁶ The Electoral Policy Program of the MSZP, March 1998, can be found at <http://www.mszip.hu/polprog.html>.

ensured. However, the party also emphasizes the gains from the membership. Jozsef Torgyan, the party leader, said after the successful parliamentary voting on NATO membership on July 15, 1997:

I think that NATO accession must mean for the country not only obligations but also rights and privileges. This is the orientation the government should follow in connection with joining NATO; this is the only possible approach to NATO membership to find favour with the public.¹¹⁷

e. Alliance of Free Democrats (SzDSz)

The Alliance of Free Democrats¹¹⁸ lost many seats in the last election, so its influence in Parliament has sufficiently decreased, too. The SzDSz, the coalition partner of MSZP in the previous government, has pursued a comprehensive approach to the security of Hungary. Primary importance has been given to the accession to the North-Atlantic institutions. The policy tools have included maintenance of good relations with other countries of the CEE region, active participation in regional organizations and supporting accession of other countries to the Western alliance. Cultivation of tight economic affairs with former socialist countries has a distinguished role:

¹¹⁷ "Unanimous Parliamentary YES for NATO," The Hungarian Observer, July 1997, p. 10.

¹¹⁸ The party program of SzDSz can be read at <http://www.szdsz.hu/program/>.

Regional political, economic, and trade cooperation efficiently serves the aims of European security, which also encourages the development of practical relations among countries of the CEE area.¹¹⁹

In spite of its small political influence, the SzDSz will be a supporter of a satisfactory alliance contribution. The party is also advised to handle security issues from a broad perspective. However, the SzDSz also supports the modernization of the HDF and its quick incorporation into NATO's military structure.

f. Hungarian Democratic Forum (MDF)

The Hungarian Democratic Forum¹²⁰ is an ally of the FiDeSz. The Forum's security policy is focused on NATO membership. The party holds as important the modernization of the HDF and achieving interoperability with NATO countries. The MDF also devotes distinguished attention to the Hungarian minorities in neighboring countries. It supports the autonomy aspirations of ethnic groups. An important aspect of MDF's approach is pursuing effective economic diplomacy for the interests of Hungary.

The MDF is proud of its pioneering role in approaching Western institutions at the beginning of 1990s when the MDF was the leading party in the Hungarian government. Therefore, the MDF will be a supporter of Hungary's

¹¹⁹ *Foreign Policy-European Integration*, Party Program of SzDSz, <http://www.szdsz.hu/program>, May 1998.

¹²⁰ The party program of MDF located at <http://www.mdf.hu/valsztas98>.

contribution to the Alliance. On the other hand, the party will probably actively pursue maximum gain for Hungary from NATO membership.

g. Hungarian Truth and Life Party (MIEP)

The Hungarian Truth and Life Party¹²¹ is the only radical force in the Hungarian Parliament. The party does not possess a real political influence since it cannot even form a parliamentary fraction (a fraction can be formed by 15 parliamentary members). Nevertheless, the MIEP is the single parliamentary party opposing Hungary's NATO joining. The MIEP has lately made a slight modification in its point of view. The total rejection of NATO membership has changed with the limitation of Hungary's participation in NATO's political organization. On the other hand, the MIEP favors the maintenance of a strong HDF and the modernization required by NATO.

B. HUNGARY'S CONTRIBUTION

The following part of the essay offers a portfolio of security provisions Hungary may pursue in its contribution to NATO. The suggestion is based upon the results of the analysis conducted in Chapter II of the Hungarian close security environment. The mix of security tools is given in Table 4. The table introduces the strategic issues both for NATO

¹²¹ Csurka, I. *The Nation Builder State. The program of MIEP*, May 1998, <http://www.miep.hu/archiv/nemzetep/nepit.html>.

and Hungary in the CEE region, and shows the corresponding policy approach by Hungary.

Three dimensions of Hungary's possible contribution are given special attention. One of the most important contributions by Hungary can be facilitating economic cooperation in CEE. The result of this provision is twofold. First, it furthers security and confidence by building everyday connections among countries, decreasing this way the threat to security on the eastern edge of NATO. Second, it helps to strengthen the economy of Hungary and other countries, and also shows the primacy of a market economy, and spreads the western values eastward.

As one of the main concerns in the region is the question of ethnic minorities, Hungary should approach this dimension carefully. The support of Hungarian minorities abroad should be provided through obedience of provisions in friendship treaties signed with neighbors. The cooperation with neighboring nations will also promote national security. In addition, Hungary's support and assistance to former socialist countries to approach and get accession in Euro-Atlantic institutions are the best means to help the Hungarian minorities.

NATO has remained primarily a national defense organization, therefore, the contribution on the military field is a main element of Hungary's provisions. The instituted reorganization and modernization of the Hungarian Defense Force (HDF) are indicators of Hungary's commitment and contribution to NATO's purpose. On the military field, the

continuation of armed forces reforms, contributions to the crisis management task, and the cultivation of military cooperation with neighboring countries are the most important provisions.

Table 4, and the dimensions described in detail suggest that Hungary has the possibility to contribute to the common purpose. The evidence from the analysis of domestic stakeholders show that the contribution will be provided with a high probability.

Table 4 A Proposed Security Portfolio
Strategic Issues in the CEE region and Hungary's Contribution to NATO Mission

| Strategic Issues | | Hungary's Response: Contribution to NATO's Mission |
|--|---|---|
| for NATO | for Hungary | |
| Military Field | | |
| Maintenance of minimum deterrence in Europe to meet the new security conditions: <ul style="list-style-type: none">- decreasing conventional forces;- improving and reorganizing the joint command and control structure;- implementation of the CJTF concept. | Possessing military forces capable for containment aggression from countries comparable by size to Hungary, or capable of causing considerable damage and casualties for large armies until the arrival of allied forces. | <ol style="list-style-type: none">1. Increase defense budget to with 0.1% of GDP annually for the period 1999-2001.2. Modernization of military forces:<ul style="list-style-type: none">- accomplishing the formation and training of quick reaction forces,- continuing the reorganization of command and control structure of HDF;- preparing the forces pledged for NATO contribution;- acquiring new air fighters depending upon the security situation and economic capabilities of the country;- change for a professional force. |
| Incorporation of new members' military forces into the joint military structure <ul style="list-style-type: none">- achieve interoperability with new members;- development of infrastructure in new member countries. | Achieve interoperability with recent NATO members. | <ol style="list-style-type: none">1. Language training of officers.2. Closing command and control procedures to NATO standard.3. Accomplishment of air defense and airspace management systems' |

| Strategic Issues | | Hungary's Response: Contribution to NATO's Mission |
|---|---|---|
| for NATO | for Hungary | |
| | | reorganization. 4. Modernization of infrastructure to receive allied forces. |
| Including new members into the common military planning system. | Integration into NATO's military planning system. | Further development of the Defense Planning System, and its introduction by 1999. |
| Nuclear proliferation: - maintenance of minimum nuclear forces; - decreasing the nuclear capabilities in cooperation with other nuclear powers; - negotiate further provisions; - further cooperation to prevent nuclear smuggling. | Prevent nuclear proliferation. | Participation in preventing nuclear proliferation: - domestic measures against nuclear smuggling. |
| Establishment of a system for "out-of-area" crises situations: - operate an early warning and monitoring scheme; - equipping and training of peacekeeping forces. | Prevent and stop possible regional conflicts. | 1. Monitor the situation in the region. 2. Equip and train forces designated for peacekeeping, peacemaking missions. |

| Strategic Issues | | Hungary's Response: Contribution to NATO's Mission |
|---|---|---|
| for NATO | for Hungary | |
| Nonmilitary Fields | | |
| Promoting security in the region: - continuing cooperation in the Euro-Atlantic Partnership Council. | Increase security and stability of the region. | 1. Cooperate with neighboring countries based upon friendship treaties. 2. Participate in work of the OSCE. 3. Participation in the work of regional organizations: - Visegrad Treaty; - Central European Initiative; - Carpathian Euroregion. 4. Sustaining military cooperation with countries of the region. |
| Ceasing the crisis on the Balkans. | Ending the crisis in the Balkans. | Further participation in NATO's mission on the Balkans. |
| Ensure economic development in new member countries. | Achieve a stable economic situation, and steady economic growth in the country. | 1. Pursuing a policy that ensures steady economic growth based on domestic consumption and export of goods and services. 2. Decreasing inflation through income regulation. 3. Expanding export into the West and promoting foreign trade with countries of the CEE region. |

| Strategic Issues | | Hungary's Response: Contribution to NATO's Mission |
|--|--|---|
| for NATO | for Hungary | |
| Decreasing the "nationalities" tension. | Support Hungarian minorities abroad: 1. End the debate about nationalities with Slovakia. 2. Improving or sustaining the Romanian and Ukrainian relations. | 1. Obeying the provisions of the friendship and cooperation treaties. 2. Paying attention to the rights of national minorities in Hungary. |
| Sustain the involvement of Russia in common matters. | Maintain mutually advantageous relations with Russia. | Improving economic and other relations. |
| Cultivation of good cooperation with Ukraine. | Sustain and improve the bilateral affairs. | 1. Improving economic cooperation and bilateral trade, as well as cooperation in other spheres. 2. Supporting Ukraine's closing to NATO. |
| Furthering the process of democratization in Slovakia. | Improving the Slovakian-Hungarian relations. | 1. Obeying provisions of the friendship treaty. 2. Improving economic cooperation, trade and other relations. |
| Pursue an "open door" policy. | Providing assistance for candidate countries — especially Romania and Slovakia — in preparation for their accession. | 1. Passing Hungary's experience about preparation to NATO accession to interested countries. |

| Strategic Issues | | Hungary's Response: Contribution to NATO's Mission |
|---|--|---|
| for NATO | for Hungary | |
| | | 2. Support their accession to the western organization. |
| Cooperation on the environmental problems. | Improvement of the environmental conditions inside Hungary and in neighboring countries. | 1. Matching environmental protection practices to the Western standard. 2. Offering help and technologies to other counties. |
| Coordination of the economic aid and assistance activities. | Economic stabilization in countries of the CEE region. | 1. Improving economic connections with CEE countries. 2. Initiate establishment of financial institutions to promote cooperation and foreign investment. 3. Pass to the other countries Hungary's practice on economic stabilization. |
| R&D cooperation | Promote the R&D activities in Hungary | Joining the NATO' R&D practices. |

1. Regional Economic Cooperation

The analysis of countries in Chapter II has shown that the nations of CEE must meet the most serious difficulties of their economy. Economic troubles can induce political upheavals, strengthen ethnic tensions and hostilities between nations. Therefore, the achievement of economic stabilization and the prosperity in CEE countries is vital for both NATO and Hungary. The western countries, as well as Hungary, may pursue economic cooperation with CEE nations in order to help them overcome their economic crises. The primary field of economic connections is external trade, which in turn promotes security. The role of trade as a security promotion tool is plausibly explained by Sperling and Kirchner:

[T]rade is one of the primary and most efficient transmission belts of economic growth and development. Trade is an impartial instrument for restructuring economies malformed by the allocation labor and scarce capital by political diktat rather than by the market for over fifty years. Unimpeded trade between the nations of western, central and eastern Europe, as well as trade between CEE, is critical to the successful and timely transition to the market economy and embrace of democracy. The creation of a dense web of trade interdependences between the nations of western, central and eastern Europe contributes to greater amity within the European security space and consequently makes easier and more likely the construction of a comprehensive and inclusive set of security institutions. Trade interdependence can create a basis for political trust — an externality supporting cooperation in other areas impinging directly upon or requiring the sacrifice or pooling of national sovereignty.¹²²

¹²² Sperling, J. and Kirchner, E. Recasting the European Order, Manchester University Press, 1997, p. 134.

The former socialist countries maintained economic relations in frames of Council of Mutual Economic Assistance (CMEA). In 1989, the share of CMEA export and import for Hungary reached 41.5% and 37.8% respectively. By 1993, these indicators fell to 27.1% and 29.8% levels. The same data for the OECD relation changed in an opposite direction: increase from 40.4% to 66.0% in export, and from 46.4% to 64.8% in import¹²³. The trend, since 1993, is a dynamic growth of trading volumes with the EU countries, and a slow increase in the CEE segment (Figures 2 and 3 in the Appendix). The neighboring countries, except for Austria, occupied only the 12th or lower place in Hungary's external trade in 1996 (Table 6 in Appendix).

Hungary can contribute to the Western alliance by promoting external trade with and between CEE countries. Trade promotion costs money. Lowering customs and tariffs means giving up some part of government incomes. Providing payment guarantees or preferential loans to facilitate external trade requires budgetary money and invites risk of nonpayment. Liberal trade regimes have some political costs, too. Lowering trade barriers places domestic producers into competition with foreign products. Therefore, the political and financial costs of trade promotion can be included in the contribution to the alliance.

The framework for facilitating free trade in the CEE region has even been established. The Central European Free Trade Agreement (CEFTA) was signed in 1992

¹²³ Ibid., p. 149.

by Czech Republic, Hungary, Poland, Slovakia, and Slovenia. Last year, Romania also joined the agreement. The operation of CEFTA seems clumsy, as the Hungary's trading data with CEE indicates. Vivifying of CEFTA would be a proper approach to increase the CEE trading relations.

Another barrier of economic growth in CEE is the lack of capital investment to modernize the obsolete production structure. The main source of capital may be foreign investments flowing into CEE countries. However, the actual need for capital is much higher than capital in its current inflow into the region (Tables 8 and 9 in the Appendix). Hungary can initiate some measures to attract more working capital into the region. For example, Hungary can establish special funds to help the establishment of joint ventures in CEE countries. Another means could be the support of Hungarian capital investment in former socialist countries with preferred taxation and earmarked loans.

In addition to promoting security, extensive economic connections help strengthen the Hungarian economy, as well. Success of Hungary with a market economy could serve as an example for other nations. It would be more evidence for the primacy of free market, democracy, and western institutions attracting other CEE countries to follow western values. The identity of values, on the other hand, decreases the possibility of hostilities between nations. Thus, promoting security through economic connections can be a valuable contribution to the stability of the region and to the purposes of the Western alliance.

2. Supporting Hungarian Minorities

From the analysis of external stakeholders in Hungary's security policy, it has become clear that one of the hottest issues in the CEE region is the question of national minorities. The Bosnian War was also deeply rooted in ethnic tensions. Table one in the Appendix shows that there are more than three million Hungarians living in neighboring countries. They have family relations and common history with Hungarians in the Motherland. It is little wonder that both the political parties and the population of Hungary maintain a fear of responsibility for their ethnicity.

However, Hungary should pursue a careful policy about the Hungarian minorities. Even the appearance of revisionism or irredentism should be avoided in relations with neighbors. The starting point in relations with the neighbors should be the obedience of provisions laid down in signed friendship treaties.

Three policy tools can be suggested in support of Hungarian minorities. First, maintenance of close connections with Hungarians, while obeying the officially accepted methods and channels, can help them in preserving their national identities. For example, these provisions can embrace cultural exchanges, the offering of scholarship at Hungarian schools, or the provision of economic aid, if necessary.

Second, economic assistance and mutually advantageous economic relations with the neighboring countries can sufficiently improve the situation of minorities. This approach can help the receiving countries overcome their economic difficulties. In turn, it can improve the situation of ethnic minorities through diminishing the possibility of internal tensions inside the receiving country.

The third tool is supporting these countries' aim to approach the Euro-Atlantic community, and help them meet the criteria of accession into these institutions. Being members of the EU and signatories of the Schengen treaty on common external (and no internal) borders would mean citizenship in a common Europe, and an unlimited possibility of maintaining relations without obstacles.

3. Military Provisions

As far as NATO is a defensive organization, the military contribution by members is crucial for the alliance. In the case of Hungary, three issues can be raised on the military field. First, Hungary should possess a modern military force capable of containing possible aggression against its territory. Second, Hungary can train and maintain forces suitable to contribute to the new mission — crisis management — of the alliance. Third, maintenance of military cooperation with former Warsaw Pact members is another field to promote confidence and security in the CEE region.

Hungary has started the reorganization of her military forces. Recognizing the general notion to decrease armed forces, and pressed by budgetary difficulties, the Hungarian Parliament has passed the 88/1995 Resolution which directs the reduction of army personnel under 60,000. The resolution also provides the introduction of a new force structure similar to the western armed forces. Under this provision, the Hungarian Defense Force (HDF) is to consist of immediate reaction forces, rapid reaction forces, and territorial defense forces. The country has revamped the General Staff of HDF last year,

decreasing its personnel and making it recognizable for its western counterparts. However, the General Staff still remains independent from the MOD organization. The integration of the two organizations must be done.

Hungary has made some steps for technical modernization of the HDF. In lieu of Russian debt payment, Hungary has received 28 of MiG-29s, more than 200 BTR-80 type armored personnel carriers from Russia, and acquired 100 refurbished T-72 main battle tanks. Hungary has also placed a \$100 million order to Matra Defense of France to deliver man-portable Mistral surface-to-air missiles. The country has also assumed the obligation to join the NATO Integrated Air Defense System.

The main issue of NATO accession is to activate the interoperability of HDF with armies of other member states. The most important task in this field is to reach intellectual and procedural interoperability. The former means training and preparation of officers and other personnel capable of working with other NATO officials and representatives. The latter assumes the identity of approaching different tasks and solving problems.

Hungary should also be integrated into the Alliance joint defense planning system. For this, a domestic planning procedure should be on place. The design of a Hungarian Defense Planning System has recently been undertaken. This system is intended to form the annual national strategy on defense that is common in other NATO countries. By the time of full membership in 1999, this system should be finalized, ready for implementation, and fit for traditional NATO procedures.

All these and future undertakings must be financed from a shrinking defense budget. The shares of defense expenditures in GDP for Hungary have been approximately

half of the NATO average since 1990 (Figure 4 in Appendix), and is the lowest among neighboring former socialist countries (Figure 5 in Appendix). Another issue is that in spite of the assumed obligation to increase the defense budget by 0.1% of GDP yearly by 2001, major acquisitions cannot be financed from the annual appropriations. Therefore, the intended Defense Planning System should have provisions for long term programs, too.

The second area of Hungary's military provisions can be the contribution to the task of crisis management. As Chapter II suggests, the highest probability should be given to the emergence of local conflicts. The resolution of these conflicts requires trained and available peacekeeping forces. Hungary may prepare armed units especially trained for peacemaking, peace support operations, and logistics elements for support. Because of relatively low labor cost, the country even has a comparative advantage in this field. Hungary can also establish special training sites for peacekeeping purposes and offer for joint use by the Alliance. This notion is in harmony with the Alliance's recently emerging new strategic concept. According to the latest news, NATO has started an 18-month review of its strategic concept with an emphasis on out-of-era, peacekeeping-type operations.¹²⁴

The third area for contribution is international military cooperation with armies of the CEE region. Hungary has currently started building a joint peace support battalion with Romania, and has the intention to establish a similar unit with Slovenia, Austria, and

¹²⁴ "NATO to Review its Role as World Order Changes," *Jane's Defence Weekly*, January 28, 1998, p. 3.

Italy.¹²⁵ The continuation of this process can be the involvement of Slovakia and the Ukraine. Permanent consultations, and information exchange between defense ministries and general staffs is another dimension of the international military cooperation. Knowledge about each other's situation and intentions is a considerable aspect of confidence building in order to promote regional security.

C. CHAPTER SUMMARY

This chapter has accomplished two purposes. First, it showed that Hungary is highly committed to NATO. Both the general public, and the political parties have shown their devotion to the Alliance. This commitment makes credible Hungary's intentions to contribute to common aims.

Second, there has been proposed a wide range of policy tools Hungary can use to contribute to the Alliance while addressing the strategic issues in the CEE region. The suggested provisions are in harmony with NATO concerns about the region, and offer an answer for a different security challenge in CEE.

The proposed provisions should be parts of an evaluation schema on contribution by members of the alliance. Cultivating several policy approaches to security with a high commitment to NATO should result in a favorable evaluation of the country's

¹²⁵ The Jane's interview with Gen. Vegh, Chief of General Staff of the HDF, Jane's Defence Weekly, February 18, 1998, p. 38.

contribution. Concerning Hungary, Sebastian Gorka, a known defense analyst in the CEE region writes:

[I]t appears that Hungary, with at least two other "colleagues", has done enough in the short time since 1990 to demonstrate its true will and has convinced NATO that it will not be simply a security user but also a contributor.¹²⁶

¹²⁶ Gorka, S. "Hungary Reinvents its Defence Force," Jane's Intelligence Review, May 1 1997, p. 179.

V. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

The conclusion of this thesis is that Hungary is able to contribute sufficiently to the Alliance. The country has an advantage because of her geographic location and also a need to spread security and stability within the CEE region. An augmentation of security and stability could be achieved through a cooperative external policy, as well as through avoiding the appearance of being a military threat against any of her neighbors because of a spectacular military build-up. In fact, Hungary should pursue a set of security policies that would prevent the rolling down of a new iron curtain that would prevent permanent negotiations and cooperation in Europe.

The change in security perception suggests that security cannot be approached from a singular military perspective. Issues other than the military aspects of security might be more important at the end of 1990s. For instance, economic prosperity, prevention of nuclear, biological, and chemical proliferation have got into focus of attention. Therefore, any country's security policy should contain elements to meet diverse challenges.

The analysis of Hungary's close environment shows that with the termination of the Cold War, the probability of large scale military aggressions has sufficiently diminished. However, other sources of political threats still prevail. The history of the CEE region, and also the ethnic composition of countries draws attention to possible local conflicts and hostilities. The other lesson from the examination of external players is that

the main source of instability is economic difficulties characteristic for countries in transition burdened with ethnic tensions. Economic crises and political instability may lead some politicians to divert the general public's emotions toward nationalism, blaming the ethnic minorities for domestic problems, and may result in civil wars or local hostilities. Hence, nations cannot still entirely refrain from having a sufficient defense capability.

Starting with the assertions above, Hungary, invited to join NATO, should maintain a security policy that provides for a multidimensional approach. The security portfolio based on this statement can be Hungary's contribution to the Alliance's mission. The certainty of the contribution is augmented by the country's commitment to NATO. Hungary's commitment is evident in two ways. The way Hungary arrived at the application for NATO membership has made the country recognize that the cheapest, most effective, and most advantageous method to provide for her security can be found in collective provisions within the frames of the Alliance. Secondly, both the general public and political parties have shown their devotion to NATO by voting in favor of membership in the organization.

In speaking about Hungary's NATO contribution, three particular elements can be underlined. First, facilitating regional trade and economic connections serve two issues at once. The establishment of economic interdependencies reduces the incentive of countries to turn to military methods in the resolution of disputes among themselves. In addition, this cooperation helps to consolidate the economic situation both in Hungary and neighboring countries which also furthers the security and stability in the region.

Economic growth in Hungary is dependent upon external trade and economic cooperation increases the capability of the country to finance its contribution to NATO.

Second, handling one of hottest issues — ethnic minorities — in the region, Hungary can promote confidence among countries. The approach to the problem of ethnic minorities should be based upon provisions of friendship treaties signed with neighbors. Hungary should avoid even the slightest indication of an intention to intervene into the internal affairs of its neighbors.

The third field of contribution is the maintenance of an efficient military force with a primary task to contain any aggression against territorial integrity of Hungary by threatening the aggressor with effective counteractions, not to mention heavy losses and casualties. The next objective of the armed forces should be the prevention of a spill-over of military conflicts from a country's civil war, or from some local wars between neighboring countries. The military should also be prepared to take part in peacekeeping missions undertaken by the organization. For this reason, the Hungarian Defense Force should undergo a comprehensive modernization and reorganization process. To finance the military reform, the defense budget of the country should be raised to the level acceptable for the Alliance.

The suggestions for Hungary's security approach is based upon the multiple public good model introduced by Mark Boyer. The model has provisions to overcome the restrictive assumptions of previous economic models of alliances. It adds several dimensions to a single military product by providing for a more realistic evaluation of members' contributions, and also straightens the burdens borne by members, thus

diminishing the notion of free riding in the organization. The incorporation of trade with public goods, and the concept of comparative advantages into the model takes the common provision closer to an optimal use of resources. Negotiations, a common practice in the Western Alliance, reveal the advantages of nations on certain fields and are a mechanism to approach the optimal point of operation.

Finally, Hungary's interests and intentions in NATO are better summed up by Laszlo Kovacs, Hungarian Minister of Foreign Affairs:

When she wants to join NATO, Hungary does not seek protection from a military threat. Hungary's determination to become a member in the Alliance is motivated by the shared values and the desire to belong to a favorable security environment, and not by fear. In our opinion, NATO enlargement means the eastward expansion of the region of security and stability. It is our goal to be part of this region, and enjoy the benefits of security guarantees of NATO membership. It is also clearly understood that by joining the Alliance, Hungary will assume the obligation to contribute to an increased effectiveness of mutual defense as well as to the enhanced security and stability in our region and in Europe.¹²⁷

B. RECOMMENDATIONS

Two sets of recommendations are relevant for further consideration. The first concerns Hungary's security policy and its implementation. The second set suggests some methodical approaches to continue the work over the multiple public good model.

Hungary should maintain a security portfolio suggested by the thesis. A similar approach would answer the different security threats the country faces. However, the

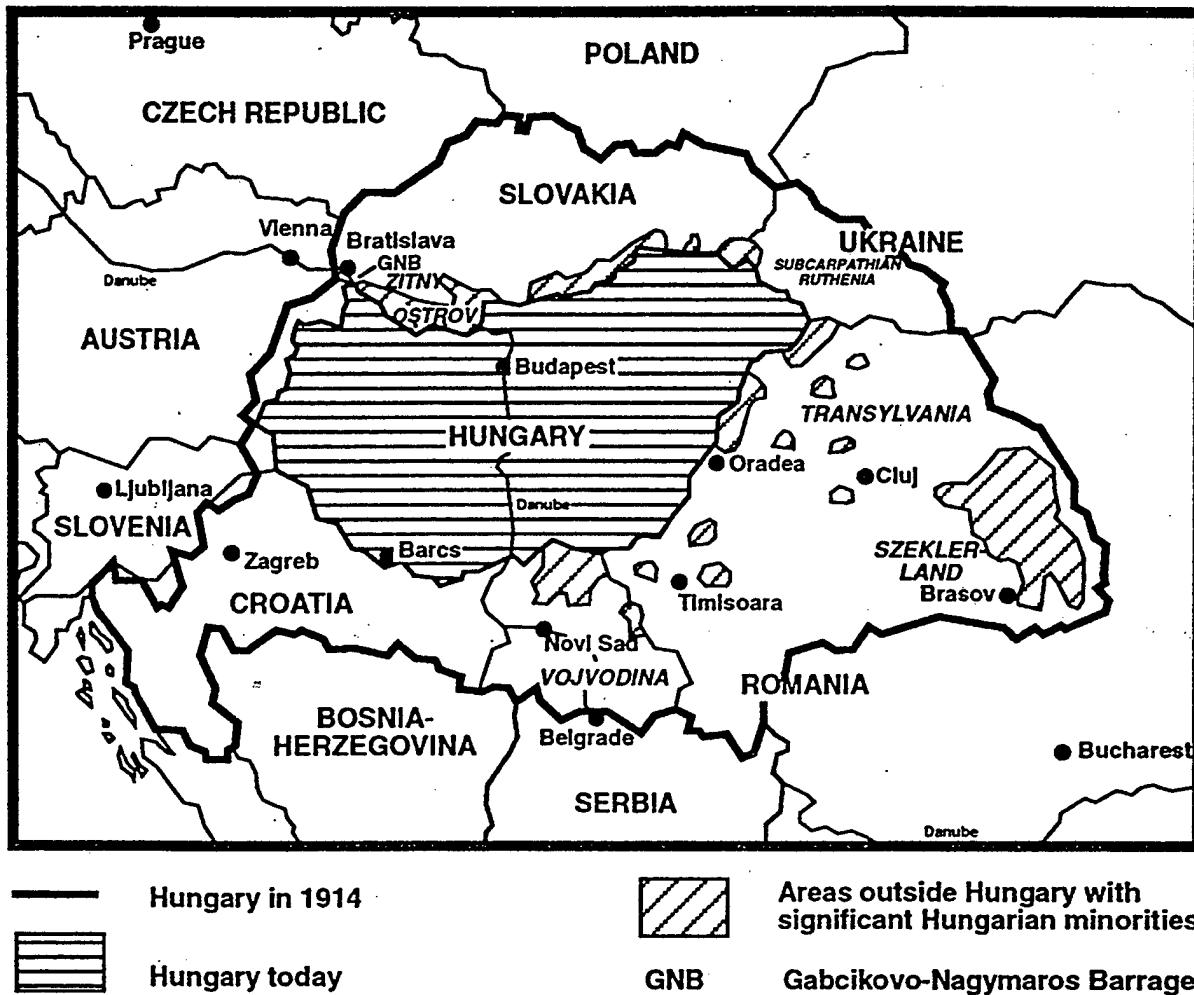
¹²⁷ Kovacs, L. *Hungary's Contribution to European Security*, an article written for NATO Review by Hungarian Foreign Minister, <http://www.mfa.gov.hu/NATO/ReviewEN.html>.

security environment, the domestic preferences, and financial capabilities are not static. Therefore, the country has to acquire a system that will support several tasks: regular reconsideration of the security environment; oversight of the policy and security challenges; incorporation of the Alliance's requirements into Hungary's policy; calculation of the financial needs to pursue a certain policy portfolio; the matching of Hungary's economic capabilities with the budgetary needs; and the consideration of the general public's opinion and preferences about the security provisions. In order to have a wide public support, citizens should be informed about the inventions to provide for the country's security. On the other hand, the defense planners should have information about the general public's opinion and preferences that can be obtained from regular opinion polls.

Concerning the multiple public good model, there should be a continual exploration into the theoretical framework. After a comprehensive analysis of different models of international relations, there could be developed a mathematical model developed for computers to explore the viability and validity of the model. Indeed, the model should incorporate the theory of comparative advantages, take into account the negotiations, provide directions about an optimal allocation of resources, and also possibility of comparing the contribution of Alliance members. Finally, the model should not be restricted to military alliances; it should be appropriate to evaluate other international institutions such as the European Union, or even the United Nations.

APPENDIX

Figure 1 Map: Hungary Before and After World War I



Source: Chaillot Paper No. 7, May 1993, Institute for Security Studies, WEU, Paris. Quoted in Van den Doel, T. Central Europe: The New Allies? Boulder: Westview Press, 1994.

Table 1 Minorities in Eastern Europe

| | Gypsies | Hungarians | Poles | Slovaks | Others |
|-------------|---------|------------|-------|---------|--------|
| Byelorussia | --- | ---- | 600 | --- | --- |
| Bulgaria | 577 | --- | --- | --- | --- |
| Czech Rep. | 114 | --- | --- | 308 | --- |
| Hungary | 500 | --- | --- | 120 | --- |
| Kosovo | --- | --- | --- | --- | * 2m |
| Lithuania | --- | --- | 258 | --- | --- |
| Macedonia | --- | --- | --- | --- | * 427 |
| Moldova | --- | --- | --- | --- | + 550 |
| Poland | 4 | --- | --- | 25 | ++ 500 |
| Romania | 470 | 1.6-2m | --- | --- | --- |
| Slovakia | 80 | 600 | --- | --- | --- |
| Vojvodina | --- | 500 | --- | --- | --- |

* Albanians

+ Russians

++ 300,000 Germans, 200,000 Byelorussians

Source: National statistical offices, EU

Quoted in: The Economist, March 13, 1993, p. 17.

Table 2 Progress in Transition in Eastern Europe and Former Soviet Union (selected countries)

| Country | EBRD Score | % GDP by Private Sector | Recovery Year | GDP % Change 1993-1994 |
|------------------------|------------|-------------------------|---------------|------------------------|
| Reform Leaders: | | | | |
| Czech Republic | 21 | 65 | 1994 | +3 |
| Poland | 20 | 55 | 1992 | +5 |
| Hungary | 20 | 55 | 1994 | +3 |
| Slovakia | 20 | 55 | 1994 | +4 |
| The Comers: | | | | |
| Romania | 16 | 35 | 1993 | +2 |
| Russia | 16 | 50 | -- | -15 |
| The Lagers: | | | | |
| Ukraine | 9 | 30 | -- | -23 |

Source: Hardt J. P., Boone J. F., Heintz S. B., Presnall A., Parliamentary Responsibility for Economic Transition in Central and Eastern Europe, U.S. Government Printing Office, 1996, p.12.

Table 3 Strengths of Armed Forces According to CFE Treaty

| | Personnel | | Tanks | | Armored Combat Vehicles | | Artillery | | Combat Aircraft | | |
|------------------------|-----------|---------|---------|---------|-------------------------|---------|-----------|---------|-----------------|---------|-------------------|
| | Ceiling | Holding | Ceiling | Holding | Ceiling | Holding | Ceiling | Holding | Fixed Wing | Ceiling | Attack Helicopter |
| Russia | 1,450,000 | 817,139 | 6,400 | 5,541 | 11,480 | 10,198 | 6,415 | 6,011 | | 3,416 | 812 |
| Ukraine | 450,000 | 370,847 | 4,080 | 4,063 | 5,050 | 4,847 | 4,040 | 3,764 | | 1,090 | 294 |
| Romania | 230,248 | 228,195 | 2,100 | 1,375 | 2,100 | 2,091 | 1,475 | 1,466 | | 430 | 16 |
| Hungary | 100,000 | 49,958 | 835 | 797 | 1,700 | 1,300 | 840 | 840 | | 180 | 59 |
| Slovakia | 50,000 | 45,483 | 478 | 478 | 683 | 683 | 383 | 383 | | 115 | 19 |
| Serbia and Montenegro* | | 125,000 | 1,025 | 600 | 850 | | 3,750 | 1,500 | | 155 | 100 |

* The ceiling for Serbia and Montenegro has been agreed in a treaty sponsored by the OSCE. The limits were to meet by the end of 1997. (Source: Jane's Intelligence Review, November 1, 1996, p. 501) The holdings are estimates of the International Institute for Strategic Studies, London, as of August 1994. (Source: The Economist, August 6, 1994, p. 41).

Source: *Treaty on Conventional Armed Forces in Europe (CFE)*, Briefing of the Commission on Security and Cooperation in Europe, Washington, D.C., February 20, 1997

Table 4 EU Evaluation of CEE countries applying for membership

| Country | Political Criteria | Economic Criteria |
|----------------|---|---|
| Czech Republic | Stable democracy. Legislative jurisdiction, and fight against corruption needs to be strengthened. Legislative guarantees for free press are unsatisfactory. Discrimination of Gypsies. | Operating market economy. Corporate management and financial system have to be improved. EU competitiveness could be reached within five years if the changes on the micro level accelerate. |
| Hungary | Stable democracy. Fights against corruption needs to be more efficient. | Operating market economy. The retirement and health care systems are to be reformed at a high pace. EU competitiveness will be reached within five years. |
| Poland | Stable democracy. Legislative jurisdiction and fight against corruption needs to be strengthened. The freedom of the press is slightly restricted. The compensation has been omitted. | Operating market economy. The retirement, health care, and banking systems are to be reformed. EU competitiveness can be reached within five years. |
| Romania | Seemingly guaranteed stable democracy, particularly with the inauguration of the new government. There are some troubles surrounding adherence to protecting basic rights. Significant efforts are needed to cease the deeply rooted corruption. Work of courts has to be improved. Human rights have to be better protected in procedures of police and secret services. | Significant improvement in establishing market economy. Legislative, and institutional systems need further consolidation. Macroeconomic imbalances have to be overcome. Possible EU competition within five years but not likely. |
| Slovakia | Though the legislative, and institutional bases are present, Slovakia does not meet democratization requirements of EU. The government does not obey the Constitution, rights of other power branches, and the opposition. The conditions of Hungarian and Gypsy minorities have to be improved. | Marketization reforms have occurred, though certain backslides (price control, upgrading of state enterprises) are monitored. In the case of a more transparent, market oriented economic policy, Slovakia may obtain EU competitiveness. |

Source: HVG 97/30, July 26, 1997, p. 26.

Table 5 Distribution of Seats in Hungarian Parliament after Elections in May 24, 1998
(preliminary results after counting 99.89% of votes)

| Party | Seats in Parliament after May 1998 | Percentage | Seats in Parliament in September 1996 | Percentage |
|---|---------------------------------------|------------|--|------------|
| Federation of Young Democrats (FiDeSz) | 148 | 38.34% | 20 | 5.18% |
| Hungarian Socialist Party (MSzP) | 134 | 34.72% | 209 | 54.15% |
| Independent Smallholder Party (FKgP) | 48 | 12.44% | 25 | 6.48% |
| Alliance of Free Democrats (SzDSz) | 24 | 6.22% | 68 | 17.62% |
| Hungarian Democratic Forum (MDF) | 17 | 4.40% | 19 | 4.92% |
| Hungarian Truth and Life Party (MIEP) | 14 | 3.63% | - | - |
| Christian Democratic Party (KDNP) | - | - | 23 | 5.96% |
| Hungarian Democratic People's Party (MDNP) | - | - | 15 | 3.89% |
| Independent | 1 | 0.25% | 7 | 1.80% |
| Total | 386 | 100.00% | 386 | 100.00% |

Source: MTI (Hungarian Telegram Agency), May 25, 1998

Table 6 Rank of Hungary's Trading Partners, 1996

| Rank | Country |
|------|------------------------------|
| 1 | Germany |
| 2 | Austria |
| 3 | Russia |
| 4 | Italy |
| 5 | France |
| 6 | USA |
| 7 | Great Britain |
| 8 | The Netherlands |
| 9 | Czech Republic |
| 10 | Poland |
| 11 | Belgium |
| 12 | Slovakia |
| 13 | Switzerland |
| 14 | Ukraine |
| 15 | Japan |
| 16 | Romania |
| 17 | Sweden |
| 18 | Slovenia |
| 19 | Spain |
| 20 | Finland |
| 21 | Croatia |
| 22 | China |
| 23 | Brasil |
| 24 | Serbia and Montenegro |
| 25 | Denmark |
| 26 | Republic of Korea |
| 27 | Turkey |
| 28 | Greece |
| 29 | Bosnia |

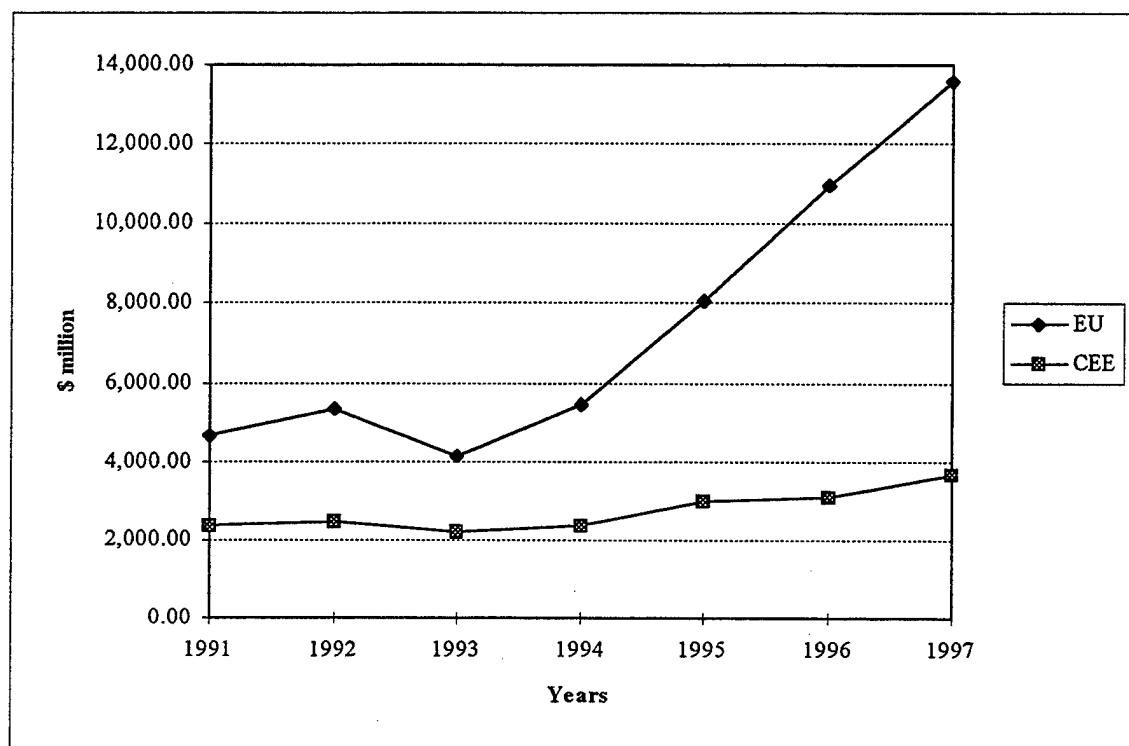
Source: Hungarian Ministry of Industry and Trade at <http://www.ikm.iif.hu/foreco/kkk/index.htm>.

Table 7 Hungary's External Trade by Country Groups, 1991-1997
(Million dollars)

| Country Group | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|----------------------|----------|----------|----------|----------|----------|----------|----------|
| Export | | | | | | | |
| Developed countries | 6,921.9 | 7,627.8 | 6,023.1 | 7,707.8 | 8,937.6 | 11,958.4 | 14,801.5 |
| - European Union | 4,659.4 | 5,326.7 | 4,139.9 | 5,456.6 | 8,079.6 | 10,949.4 | 13,602.3 |
| Developing countries | 856.6 | 570.7 | 483.7 | 419.9 | 500.6 | 503.5 | 509.4 |
| CEE | 2,354.0 | 2,460.6 | 2198.8 | 2,366.0 | 2,993.5 | 3,116.5 | 3,659.0 |
| Others | 54.4 | 46.0 | 201.3 | 207.1 | 435.3 | 125.2 | 130.0 |
| Total | 10,186.9 | 10,705.1 | 8,906.9 | 10,700.8 | 12,867.0 | 15703.6 | 19,099.9 |
| Import | | | | | | | |
| Developed countries | 7,577.4 | 7,721.8 | 8,133.4 | 10,274.8 | 10,893.0 | 12,954.6 | 15,429.7 |
| - European Union | 4,681.8 | 4,734.1 | 5,023.7 | 6,599.9 | 9,514.7 | 11,301.3 | 13,325.8 |
| Developing countries | 900.1 | 466.3 | 547.2 | 655.0 | 856.2 | 1,091.3 | 1,504.7 |
| CEE | 2,685.5 | 2,752.3 | 3,619.8 | 3,322.7 | 3,538.9 | 3,851.0 | 3,957.6 |
| Others | 219.1 | 138.5 | 229.9 | 301.3 | 178.2 | 246.8 | 342.1 |
| Total | 11,382.1 | 11,078.9 | 12,530.3 | 14,553.8 | 15,466.3 | 18,143.7 | 21,234.1 |

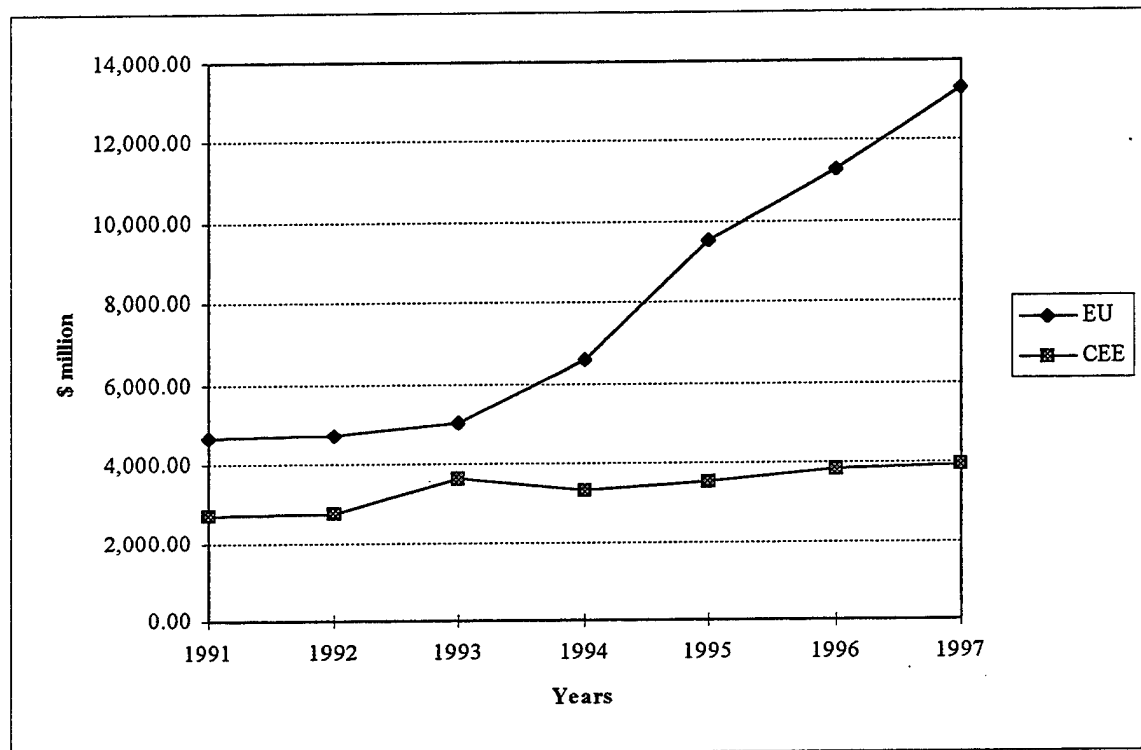
Source: Hungarian Ministry of Industry and Trade at <http://www.ikm.iif.hu/foreco/statistic/back21.htm>.

Figure 2 Hungary's Export to EU and CEE, 1991-1997
(Million dollars)



Source: Hungarian Ministry of Industry and Trade at <http://www.ikm.iif.hu/foreco/statistic/back21.htm>.

Figure 3 Hungary's Import from EU and CEE, 1991-1997
(Million dollars)



Source: Hungarian Ministry of Industry and Trade at <http://www.ikm.iif.hu/foreco/statistic/back21.htm>.

Table 8 Investment Flows and G-24 Aid to CEE, 1990-1994 (millions of dollars)
(Selected countries)

| Country | Gross Investment | G-24 Aid ^a | Total |
|-----------------------------|------------------|-----------------------|--------|
| Czech Republic ^b | 3,217 | 2,257 | 5,474 |
| Estonia | 811 | 673 | 1,484 |
| Hungary | 10,319 | 10,656 | 20,975 |
| Poland | -5,483 | 27,194 | 21,711 |
| Romania | 2,457 | 5,787 | 8,244 |
| Slovakia ^b | 1,094 | 933 | 2,027 |
| Slovenia | 793 | 630 | 1,423 |
| Total | 13,208 | 48,130 | 61,338 |

a Excludes international financial institutions.

b 1993-94

Sources: European Commission; International Monetary Fund.

Quoted in: Sperling, J. and Kirchner, E. Recasting the European Order, Manchester University Press, 1997.

Table 9 Gross Capital Needed^a by CEE
(Selected countries)

| Estimated gross capital needed by countries of CEE to reach rough comparability with Western Germany by the Year 2020 (billions of dollars) | |
|---|--------|
| Bulgaria | 1,135 |
| Czechoslovakia | 2,307 |
| Hungary | 1,270 |
| Poland | 5,467 |
| Romania | 3,013 |
| Total: | 13,201 |

a This includes the change in the net stock of capital and the cumulative flows of capital needed to cover depreciation of physical capital stock.

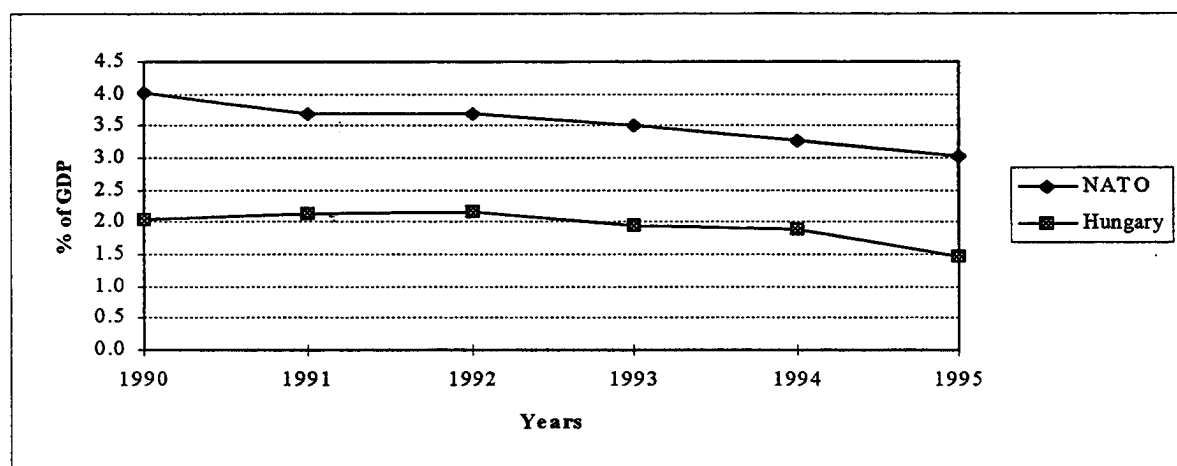
Source: Congressional Budget Office. "How the Economic Transformation in Economic Will Affect the United States." Washington, December 1990. Quoted in: Parliamentary Responsibility for Economic Transition in Central and Eastern Europe. A publication of the Commission on Security and Cooperation in Europe and The Congressional Research Service. Revised edition, 1996.

Table 10 Share of Defense Expenditures, 1990-1995
(% of GDP)

| Year | NATO | Hungary | Slovakia | Ukraine | Romania | Russia |
|------|------|---------|----------|---------|---------|--------|
| 1990 | 4.0 | 2.0 | | | 3.7 | |
| 1991 | 3.7 | 2.1 | | | 4.0 | |
| 1992 | 3.7 | 2.2 | | 1.9 | 3.3 | 19.7 |
| 1993 | 3.5 | 1.9 | 2.4 | 1.8 | 2.1 | 16.5 |
| 1994 | 3.3 | 1.9 | 2.4 | 3.1 | 2.4 | 13.8 |
| 1995 | 3.0 | 1.5 | 3.0 | 2.9 | 2.5 | 11.4 |

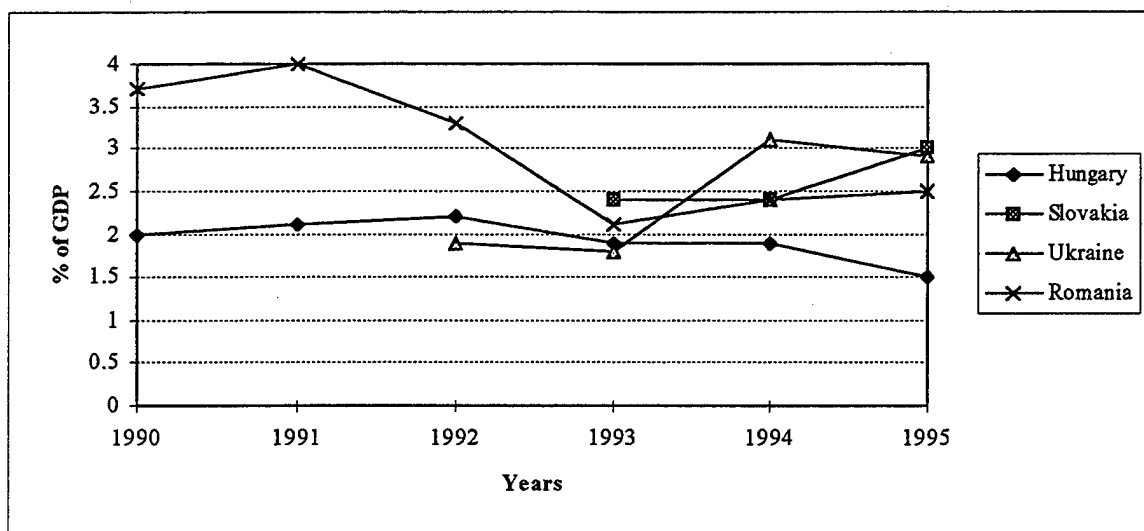
Source: World Military Expenditures and Arms Transfer, U.S. Arms Control and Disarmament Agency at <http://www.acda.gov/wmeat95/wmeatlst.htm>.

Figure 4 Share of Defense Expenditures in NATO and Hungary, 1990-1995
(% of GDP)



Source: World Military Expenditures and Arms Transfer, U.S. Arms Control and Disarmament Agency at <http://www.acda.gov/wmeat95/wmeatlst.htm>.

Figure 5 Share of Defense Expenditures in Selected CEE Countries, 1990-1995
(% of GDP)



Source: World Military Expenditures and Arms Transfer, U.S. Arms Control and Disarmament Agency at <http://www.acda.gov/wmeat95/wmeat1st.htm>.

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